FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY JUNE 17 1993 — D8523A

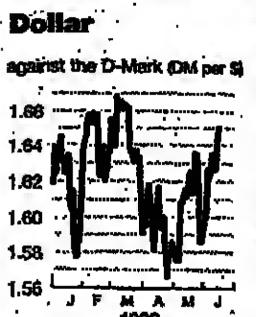
Publication of Nigerian poll result suspended

The political future of Nigeria was in doubt again after the commission overseeing presidential elections held last Saturday suspended publication of the outcome.

The move followed a court ruling restraining it from announcing the result. It lends substance to fears raised by pro-democracy groups in Nigeria that the transition to democracy in Africa's most populous state, promised by the military government of President Ibrahim Babangida, is in jeopardy. Page 12

Showdown for Japanese ruling party: Japan's ruling Liberal Democratic party faces a showdown today over reform of the country's political system, as opposition parties promised to launch a no-confidence motion against Kiichi Miyazawa, the prime minister, and his cabinet. Page 12; LDP's reform bluff is called, Page 4

US currency surges against D-Mark: The dollar rallied sharply against the D-Mark despite the Bundesbank's decision to leave the cost at which it lends wholesale funds to commercial banks unchanged at 7.60 per cent. The dollar rose to close at DM1.6585, leading some dealers to think that the US currency could be on the verge of breaking through to its highest levels for years. There are lingering expectations that the Bundesbank will cut its official interest rates at its council meeting today. Currencies, Page 28; Bundesbank to question Waigel, Page 12



Source: Datastream

UK backs down on N Sea oil taxes: The UK government bowed to pressure from ruling Conservative party backbench MPs over proposed changes to North Sea oil taxes, extending short-term help for companies worst affected by the changes. Page 6

Indian premier denies allegations: P.V. Narasimha Rao, India's prime minister, denied receiving any money from Harshad Mehta, the stockbroker at the centre of the Bombay securities scandal, who made sworn allegations that he made a Rs10m ($323,400) secret payment in 1991 to Mr Rao. Page 4

Modest pick-up in US economy: The US economy is growing at a steady but moderate pace, figures for factory output and the housing market indicated. Page 5

Shell, the Anglo-Dutch group, plans to sell its agrochemicals business to American Cyanamid of the US, propelling the US group from tenth to sixth in the world agrochemicals league. The combined operation would have sales of about $2bn. Page 13

Ferruzzi: Leading bank creditors of Italy's troubled Ferruzzi group met Bank of Italy officials as the collapse in the company's share price took on a political turn. Page 13

Hanson buys waste business: ARC, a subsidiary of Anglo-US conglomerate Hanson, paid £44.2m ($68m) for the main assets of Econowaste, the waste disposals business built by Tarmac. The acquisition marks a further move for Hanson into the UK waste sector. Page 19; Lex, 12

Mexican drugs officers sacked: Mexico has sacked 67 members of the federal anti-drugs squad, including 13 commanders, in a crackdown on collusion with traffickers. Page 5

Cambodia power share agreed: The two main Cambodian political parties agreed a form of interim government under which they share power while a new constitution is written. Page 4

Daimler-Benz, Germany's largest industrial company, said next year's profits could be twice as high as the current year, suggesting a figure of around DM2bn ($1.25bn) after an expected DM1bn this year. Page 13

Latin America private power generation: A fund with a target of $600m has been launched in the US to seek capital from investment institutions for private sector power projects in Latin America. Page 3

Skandinaviska Enskilda Banken, the country's leading commercial bank, and the Swedish government agreed that the first step towards recapitalising the loss-hit group should be a call on its shareholders. Page 13

STOCK MARKET INDICES

FT-SE 100:	2883.9	(+13.0)
Yield	4.0	
FT-SE Eurotrack 100	1181.17	(+8.00)
FT-A All-Share	1423.44	(+0.4%)
Nikkei	19,902.42	(-143.46)
New York: lunchtime		
Dow Jones Ind Ave	3498.09	(+6.09)
S&P Composite	446.66	(-0.21)

US LUNCHTIME RATES

Federal Funds:	3%
3-mo Treas Bills: Yld	3.096%
Long Bond	$103\frac{27}{32}$
Yield	6.819%

LONDON MONEY

3-mo interbank	$5\frac{29}{32}$%	($5\frac{15}{16}$%)
Liffe long gilt future:	Jun $105\frac{23}{32}$	(Jun $105\frac{13}{32}$)

NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$17.7	(17.61)

Gold

New York Comex (Aug)	$371.5	(370.8)
London	$369.35	(365.75)

STERLING

New York lunchtime:		
$	1.50165	
London:		
$	1.504	(1.522)
DM	2.485	(2.4925)
FFr	8.385	(8.385)
SFr	2.235	(2.2275)
Y	160.25	(160.75)
£ Index	79.4	(79.5)

DOLLAR

New York lunchtime:		
DM	1.661	
FFr	5.583	
SFr	1.4875	
Y	106.57	
London:		
DM	1.6585	(1.6375)
FFr	5.575	(5.51)
SFr	1.4855	(1.463)
Y	106.6	(105.6)
$ Index	64.5	(63.9)

Tokyo close Y 106.35

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.60	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000
						UAE	Dh11.00

Go-ahead for wide-screen TV

Muted welcome from French and Dutch as UK drops objection to $270m plan

By Andrew Hill in Luxembourg

BRITAIN yesterday cleared the way for a four-year Ecu228m ($270m) plan to promote wide-screen television services in the European Community.

The UK dropped its previous veto of the project at a meeting of EC telecommunications ministers yesterday after more than a year of heated political argument.

EC electronics manufacturers and retailers hope the subsidies included in the plan, which will be available only to broadcasters and programme producers, will encourage transmission of wide-screen programmes and kick-start a lucrative market for wide-format television sets.

The deal could also lead to the development of cinema-quality, high-definition television (HDTV) in Europe, possibly sharing elements of the advanced digital television technology being developed by US companies and European companies in the US. Advocates of HDTV, including the European Commission and the French and Dutch governments, gave the deal a muted welcome, reflecting the fact that the latest plan is a shadow of the five-year Ecu850m programme proposed by Brussels in April last year.

Mr Patrick McLoughlin, the UK's new junior trade minister, justified the British decision to back the plan on the grounds that funding had been extended from 3½ to 4 years.

He said the UK had also won guarantees that Japanese television manufacturers based in Britain – such as Sony – are not excluded from future HDTV research projects and standardisation discussions. But the Commission said the additional clause would make no difference to existing EC practice.

Last month, Mr Edward Leigh, Mr McLoughlin's predecessor, said Britain would not support a plan worth more than Ecu150m.

Mr Leigh has claimed that Dutch objections to his hard line on HDTV, which caused a high-level political row last December, contributed to his replacement in the last UK government reshuffle.

But Mr Arne Melchior, the Danish minister who chaired yesterday's Luxembourg meeting, said the change of minister had not been decisive: "I think if Mr Leigh had been in the [British] chair today, he might have been forced to a similar result."

Mr McLoughlin added: "Anybody who believes .... that junior ministers themselves solely decide policy lives in a land of grand delusion."

The EC could start disbursing funds in the second half of the year. Until June 30 1997 Ecu160m will be made available to broadcasters and programme-makers to help them upgrade equipment to wide-screen technology, convert existing programmes and produce programmes in the new format. Industry or public institutions will have to match the EC funding.

A further Ecu68m will be made available after January 1 1995, for those smaller countries which have less well-developed audio-visual industries, and that sum will have to be matched by Ecu17m from other sources.

European equipment manufacturers have invested heavily in earlier EC-backed technology, but are now prepared to make television sets to any technical standard which the market will accept. Wide-screen sets are already on the market in continental Europe but they are both bulky and expensive – retailing at more than £1,000 each.

Commercial broadcasters in Germany criticised yesterday's decision, claiming that it would force them to transmit using the original EC-backed standards – which they consider outmoded – because that is the only wide-screen transmission technology available.

Viewer's guide to HDTV, Page 2

Sparks fly as Lopez inflames Germans

By Christopher Parkes in Frankfurt

THE Volkswagen fire brigade was ont again yesterday, attempting to douse another brush fire sparked in Spain by the group's incendiary production director, Mr José Ignacio Lopez de Arriortúa.

According tn German press reports, Mr Lopez had described Germans as eitber "square-heads" or "concrete-beads" to an andienca of more than 1,000 bankers and business people in Madrid on Tuesday.

After a day's investigation and much dictionary-thumbing, VW officials claimed to have divined that the Basque firebrand bad referred in unscripted remarks to German *Hartnäckigkeit* , which means obstinacy or, more charitably, persistence.

In terms whicb reportedly "amazed" his audience, he said Germans had a chance for future success only if they applied their discipline and methodical ways to developing more creativity.

Spanish people, natnrally including himself, brimmed with creative flair. What they lacked was the bard-headed, methodical approach of the Germans.

Mr Lopez, who left General Motors abruptly in March followed by a clutch of his "warrior" managers and legal actions alleging industrial espionage, also claimed that in the next century there would be only three big carmakers in Europe: one German, one Japanese and one Franco-Italian group.

The German survivor, Volkswagen, might possibly take over its indigenous competitors in the meantime.

Tbe latest upset follows a series of events which could put Mr Lopez at odds with his new employer.

On Monday, in his first open press conference since joining VW, he contradicted clear statements from Mr Ferdinand Piëch, group chairman, on how the two men came to meet.

Mr Piëch volunteered the information during a recent Financial Times interview that be had been

Continued on Page 12

Kohl moves to review German citizenship laws

By Quentin Peel in Bonn

CHANCELLOR Helmut Kohl agreed yesterday to draw up plans for further relaxation of Germany's strict laws on citizenship and nationality, including possible extension of dual nationality in exceptional cases.

The chancellor and Mr Rudolf Seiters, the interior minister, rejected calls for acceptance of the principle of dual nationality, which has been urged by leaders of the Turkish community in the wake of recent racial attacks.

They promised, instead, that the 80-year-old nationality law would be redrafted before the end of the present parliament next year.

In a formal statement of government policy in the wake of a series of arson attacks on the homes of foreigners – especially Germany's 1.8m strong Turkish community – Mr Kohl sought to counter criticism that be had failed to show enough sympathy for the victims.

He listed measures to clamp down on rightwing and neo-Nazi groups, including the banning of three organisations; legal action to strip two leading neo-Nazis of their constitutional rigbts; and surveillance by the security services of the extreme rightwing Republicans, who have won seats in local council elections.

At the same time he issued a stern warning against extremists within the Turkish community, suggesting that there were now as many as 18,000 supporters of Islamic fundamentalism, 7,000 members of extreme Turkish and Kurdish nationalist groups, and 4,000 supporters of "revolutionary-Marxist groups".

Mr Kohl's statement is unlikely to meet many of the demands of both immigrant and opposition groups for firmer government action, and dual nationality.

"We must change our law on nationality in such a way that tbe existing opportunities to become a German citizen are better used," he told parliament. "I am thinking above all of young Turkish citizens, who regard Germany as their home, and are also ready to fulfil the dnties of a citizen in our democratic state.

"I think it is right to avoid the application of multiple nationality in principle," he added. But in drafting the promised reform of the 1913 Nationality Law, a joint commission of the federal government and 16 states would investigate "whether multiple nationality can be possible in exceptional cases, beyond those which already exist".

Some would doubt, however, that the debate over extending German nationality will belp to quell the rise of racism in the country.

Mr Ignatz Bubis, leader of the German Jewish community, who watched the debate from the gallery, warned that granting a young Turk German nationality would not atop bim baing attacked by German racists. Any idea that a Turk with German citizenship would be regarded as a German by rightwing extremists was "pure illusion", he said.

Bosnia plan 'no longer realistic'

Bosnian Serb leader Radovan Karadzic waves to journalists after meeting the co-chairmen of the Bosnian peace talks near Geneva. The international mediators were forced to admit at talks with leaders of Serbia, Croatia and Bosnia that their original plan for the division of Bosnia-Hercegovina is no longer realistic. Karadzic is insisting Bosnia be divided into three mini-states. New division, Page 2

UK regulator fines Goldman Sachs over Maxwell deals

By Norma Cohen and Bronwen Maddox in London

GOLDMAN SACHS, the blue chip US investment bank which dealt extensively with companies controlled by the late Mr Robert Maxwell, was yesterday fined £160,000 ($240,000) by regulators for breacbes of UK securities rules and ordered to pay an estimated £125,000 in costs.

The fines by the Securities and Futures Authority, the self-regulatory body for the UK brokerage industry, are the first official censure of Goldman's activities in relation to Maxwell companies.

The charges related to share deals which the SFA described as "free payments" to Maxwell companies. These payments occurred during a time when it is now known that the companies were frantically trying to raise cash.

The SFA said its review did not conclude that either Goldman or any of its personnel "participated in any illicit condnct with, or were aware of illicit condnct by, Maxwell or any entity controlled by or associated with him".

Yesterday's fine does not rule out further action against the investment bank by tha SFA or other UK bodies.

Goldman had asked that findings should not go to a tribunal as is normal when rule breaches are uncovered, but sougbt a negotiated settlement with regulators which resulted in the public announcement and fine. Some findings have been sent to the US Securities and Exchange Commission for review.

The rule breaches relate to three transactions, two of which were purchases of roughly £24m in securities from Maxwell-controlled fund management companies which invested assets on behalf of pension scheme members. The third entity was Bishopsgate Investment Trust, a company at the heart of Mr Maxwell's private interests whicb sold an estimated £25m in securities to Goldman just mnnths before Mr Maxwell's death.

The SFA said it concluded that in these three transactions Goldman had paid for, but failed to receive, all the shares involved. In effect, the SFA said, Goldman made "free payments" to Maxwell entities and failed to tell regulators about the effect on its capital position.

The largest of those transactions, the one with BIT, straddled the period in which one Maxwell entity defaulted on a loan from Goldman, which was then left to collect securities which had paid for in full from an entity which it knew was in financial difficulties

Continued on Page 12
Background, Page 6
Lex, Page 12

CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Deficits 'threaten new currency chaos'

By Lionel Barber in Brussels

THE EUROPEAN Commission yesterday warned that a fresh crisis in the exchange rate mechanism could be triggered if member states allow budget deficits to grow in order to counter rising unemployment.

Mr Henning Christophersen, EC economics commissioner, called for tighter fiscal policies in 1994. A relaxation of fiscal discipline would damage the Community's credibility and could lead to tighter monetary policy, higher interest rates and new disturbances in the European Monetary System.

Mr Christophersen was speaking on the day the Commission forecast that EC economies would shrink an average of 0.5 per cent this year, the worst performance since 1975.

Growth next year is likely to be a modest 1.25 per cent, pushing unemployment in the EC towards 20m, according to the Commission forecasts. Employment is expected to fall by more than 1¼ per cent, the poorest figures in the history of the EC.

One bright spot is the UK economy, which is forecast to grow 1.5 per cent this year and 2.5 per cent next year. Mr Christophersen agreed that Britain had enjoyed a short-term benefit from leaving the ERM, but he described the UK recovery as "fragile". At a news conference, Mr Christophersen justified his rejection of deficit spending to counter unemployment by pointing out that the EC's budgetary position remained precarious. The current level of government net borrowing is likely to increase to around 6¼ per cent of GDP in 1993. This is the highest recorded in the EC (it reached 5.2 per cent in 1982), and is more than double the target of 3 per cent set down in the Maastricht treaty for membership of a European Monetary Union.

Despite the poor prospects for growth, Mr Christophersen insisted that it was still possible to reach the Emu goal, and he ruled out changing the convergence criteria on inflation, government debt and budget deficits set down in the treaty.

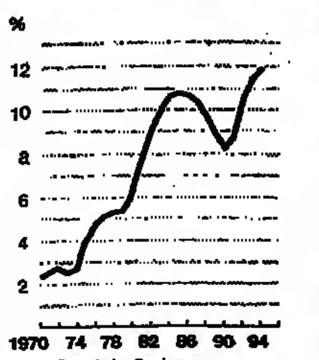
Mr Christophersen said that reducing budget deficits was not being done "to please people in Brussels" or to meet the Maastricht treaty's criteria for joining a monetary union. "The biggest risk of a further relaxation of fiscal policies is that it will reduce credibility in other areas," he said.

Without naming the Bundesbank, Mr Christophersen said: "There will be no further easing of monetary policy if you increase fiscal deficits. A tightening of monetary policy could lead to new disturbances in the European Monetary System."

His remarks underline the belief in Brussels that nothing should be said – or done – which might cause the Bundesbank to have second thoughts about lowering interest rates. Virtually all bets are being placed on lower German – and European – interest rates in the next 12 months to revive the economy.

Mr Christophersen said he expected inflation to edge down to an average annual rate of 4.25 per cent this year from 4.6 in 1992, and to keep falling to 3.75 per cent in 1994, making it easier to relax monetary policies and pave the way to lower interest rates which were a key to growth.

Unemployment EC



Source: Commission Services

Russia's quest for a future guaranteed in writing

By Leyla Boulton in Moscow

RUSSIA'S constitutional convention broke up yesterday without meeting President Boris Yeltsin's deadline for finalising a new draft constitution, a task which a conciliatory commission will now try to complete over the next 10 days.

The 700 delegates, including heads of regional administrations and parliaments, political parties, and different interest groups, are due to reconvene on June 26. A statement adopted by a majority of delegates simply confirmed that they supported the goal of a "free, law-based, secular state whose highest value was the individual, and his inalienable rights and freedoms".

The conciliatory commission of 60 representatives will try to iron out differences among delegates over what changes should be made to President Yeltsin's draft and what should be added to it from parliament's rival draft.

In addition, under the direction of President Yeltsin's chief of staff, it will seek to elaborate a mechanism for adopting the constitution if the Congress of People's Deputies, or full parliament, fails to adopt it, as well as rules for early elections to a new parliament provided for by a new constitution.

"The convention is like a sword of Damocles hanging over the Congress," said Mr Kakha Bendukidze, a young entrepreneur and delegate.

While falling short of its master's aims, the convention was at least remarkable for what it did not give away – and that is Russian statehood.

In his haste to get a new constitution adopted against the wishes of the Congress of People's Deputies, it had been feared that Mr Yeltsin would make too many concessions to the Russian Federation's constituent republics.

In the event, the 20 republics, created by the Bolsheviks to give Russia's ethnic minorities a semblance of statehood even though they account for just 18.5 per cent of the population, had every reason to be upset with yesterday's closing statement.

Although it is not clear whether this was a tactical manoeuvre or a hardening in Mr Yeltsin's stance towards the republics, the statement dropped a reference to them as sovereign states, but the 66 regions, which want at least equal rights to the republics in the economic sphere, as mere "state formations".

This prompted leaders of three of the biggest republics, Yakutia, Tatarstan, and Karelia to threaten to stay away from the convention when it reconvenes next week. In his closing speech, Mr Yeltsin warned the republics against pressing for too much independence, saying this could lead to their own break-up. It was a sign of his confidence that deputies would be less of a problem than the republics that Mr Yeltsin simply taunted parliament for talking of holding its own rival constitutional convention in July.

"Our work is going so swimmingly that we will be finalising everything in June," President Yeltsin claimed.

The new constitution: opposing views

PRESIDENTIAL DRAFT

Social aims: Pensions, social payments and aid in accord with economic capacity of society must provide a living standard no lower than the subsistence level defined by law.

Property rights: Private property is an inviolable, natural human right. Citizens can hold land and any other property obtained in accord with the law and dispose of it as they wish. Owners are free to use and manage land and other natural resources if this does not lead to waste of natural resources and does not violate the interests of local inhabitants.

Press freedom: The press is free. Censorship is prohibited.

Parliament: Parliament is the Federal Assembly consisting of two chambers: the State Duma and the Federation Council. The Council includes two members from each republic and region and additional members (number unspecified) from autonomous districts.

The Council nominates the Chairman of Government upon presentation of the candidate/candidates by the President. The Council holds votes of confidence in the Government.

The Duma is responsible for approving all federal legislation, sending on the legislation for approval by the Council. If the Council fails to take a decision within 10 days, the legislation becomes law. If the Council rejects a bill, the chambers set up a conciliation commission. If no agreement is reached, the Duma re-examines the legislation and can overrule a Council veto by a two-thirds majority vote.

The President: The President is the head of state and the highest official (there is no Vice-President). In addition to presenting candidates for the Chairman of Government, the President presents candidates for Chairman of the Central Bank, judges for the highest courts and the Prosecutor-General. The President appoints ministers proposed by the Chairman of the Government.

The President sets the dates for parliamentary elections and is able to dissolve Parliament if it fails to take decisions necessary to form a government and in cases when a political crisis cannot be overcome on the basis of constitutional procedure.

The President can be impeached by the Council only on the basis of accusation of treason, the intentional violation of the Constitution, or the undermining of the state or of human rights and freedoms.

PARLIAMENTARY DRAFT

Social aims: The Russian Federation will provide equal and just opportunities for personal development and welfare for individuals and society.

Property rights: Property rights are inviolable, but forced confiscation of property is permitted in cases where society is proven to need it. Concentration of land in the hands of one proprietor or owner exceeding legal limits is prohibited.

Press freedom: Media freedom is guaranteed, but misuse of media freedom is prohibited.

Parliament: Parliament is the Supreme Soviet, consisting of two chambers: the State Duma and the Federal Assembly. The Assembly includes two members elected by each republic and region and one from each autonomous district.

The Supreme Soviet amends the Constitution and adopts federal laws. It approves, amends and supervises the execution of the state budget, and sets federal taxes. It approves the President's nominations for chairmen, deputy chairmen and members of the Government responsible for the economy, finance, internal and foreign affairs, defence and security.

Legislation is submitted to the Duma, with approved legislation then sent on to the Federal Assembly. The Assembly sends legislation within a week of approval to the President, who has 14 days to sign it or return it to the Supreme Soviet. If rejected legislation is then approved by a two-thirds majority in both chambers, the President must sign it within a week.

The President: The President is the head of state. The Vice-President carries out duties assigned by the President. The President can be impeached for grave violation of the Constitution in procedure triggered by a majority decision of the Duma, with approval by the Constitutional Court, and confirmed by a two-thirds majority in the Assembly.

Source: Published documents in unofficial translation

Young thug takes on old communist

THE latest political crisis in oil-rich Azerbaijan, in which the president's position has been threatened, can be blamed on a simple but powerful confluence of events – the combined wrath of an old communist and a young thug, writes Steve LeVine in Baku, Azerbaijan. The ambitions of the two men now threaten to bring new violence to the Caspian Sea nation of 7m people.

"The old government is going to be wiped out, and we don't know what will replace it," said a diplomat in Baku. "It's complete chaos and anarchy here."

The main reason for pessimism in Baku is that the domestic crisis is being exploited by Azerbaijan's adversary in the disputed mountain enclave of Nagorno-Karabakh. For the last two days ethnic Armenians from the enclave have taken advantage of Azerbaijan's political turmoil to attack the key town of Agdam, which may fall. If it does diplomats believe President Abulfaz Elchibey could lose his job, as have his three predecessors who suffered military failures in Nagorno-Karabakh.

The old communist is Mr Heydar Aliyev, Azerbaijan's former KGB and Communist party leader who tried three years ago to return to Azeri politics, only to be snubbed and humiliated by the republic's new communist leaders. Mr Aliyev's revenge came on Tuesday when he won election as the powerful chairman of parliament. This left him second only to the beleaguered Mr Elchibey, over whom Mr Aliyev towers as a skilled politician. Diplomats believe Mr Aliyev will now manoeuvre parliament into appointing his ideological allies to the prime minister's office and to two other key ministries, and probably also force new national elections to cement his power.

Mr Aliyev has exploited the chaos caused by the young thug – Mr Surat Husseynov, the charismatic ousted commander of a 3,000-strong private army. Last month, Mr Husseynov was relieved of his command in Nagorno-Karabakh after a string of Armenian victories there. His revenge began two weeks ago, when he seized control of Azerbaijan's second-largest city, Gyanja, forcing Mr Elchibey's prime minister and parliamentary leader to resign. Now Mr Husseynov is demanding that Mr Elchibey, too, should quit. He has established a base 50 miles west of Baku.

So far the government has resisted his demands for entry to the capital, but Mr Husseynov yesterday continued to capture new territory, and he now controls more than half the country.

Mr Elchibey is being pressured by aides to use force if Mr Husseynov does not end his insurrection. But the president enjoys little support in the military and it is unclear how strong a campaign the government could muster against the 35-year-old warlord.

Oil company executives who have been pressing Azerbaijan to sign exploration deals have fled the republic because of Mr Husseynov's insurrection.

Mr Husseynov, however, seems intent on capturing still more territory, while the Armenians battle to seize yet another Azeri town. If either succeeds, even the masterful Mr Aliyev may be able to do little for his native land.

Bangemann warns on telecoms delay

By Andrew Hill in Luxembourg

EC member states risk jeopardising their competitive position if they delay further telecommunications liberalisation, the EC's industry commissioner warned yesterday.

Mr Martin Bangemann told EC telecoms ministers in Luxembourg that it would be against member states' own interests to postpone the European Commission's proposed 1998 deadline for opening all telephone calls to full competition.

Poorer and smaller member states were last night chipping away at the Commission's deadline in an attempt to win temporary opt-outs from the ambitious programme, which follows earlier liberalisation of the market for telecoms equipment and specialised services.

Under a compromise, Belgium and Luxembourg – which are classified as "small networks" – would not have to liberalise telephone services until the year 2000. Less developed networks – Ireland, Spain, Portugal and Greece – would have until 2001, with the possibility of a two-year extension.

Ireland and Spain were last night attempting to persuade the larger countries, led by Britain, Germany and France, to accept a general deadline of the year 2000.

Peace talks centre on new division of Bosnia

By Robert Mauthner in Geneva

LEADERS of Serbia, Croatia and Bosnia yesterday met international mediators in a fresh attempt to work out a peace settlement, whicb everyooe now recognises would entail substantial modifications to the Vance-Owen plan.

But after more than three bours of talks President Alija Izetbegovic of Bosnia apparently walked out, saying be could no longer negotiate because of Serb attacks on tbe Moslem enclave of Gorazde. Mr Izetbegovic had been due to leave Geneva last night anyway.

Lord Owen and his fellow mediator, Mr Thorvald Stoltenberg, a former Norwegian foreign minister, had met tbe three leaders – President Slobodan Milosevic of Serbia, Mr Franjo Tudjman of Croatia and President Izetbegovic – in a villa near Geneva for their first face-to-face meeting since the abortive peace plan agreed in Athens last month.

Mr Izetbegovic said he could not continue the talks because "there was a bombardment of Gorazde today and not only that but tanks and ground troops are going in." Earlier Sarajevo radio said Serbs had intensified their shelling of Gorazde, tbe soutb-eastern Moslem enclave proclaimed a UN safe area. Unconfirmed reports said 17 people were killed in an overnight attack by besieging Serb forces.

It accused the Serbs of sending in reinforcements and more heavy weaponry despite a renewed ceasefire pledge by General Ratko Mladic, commander of Bosnian Serb forces.

Two teams of UN military observers last night were due to in Gorazde as part of the ceasefire agreement.

The Geneva meeting, even before tbe walk out, was unlikely to produce an immediate solution, despite the risk of a new flare-up over the Serb-populated Krajina region of Croatia. At the weekend Krajina Serbs are likely to vote in a referendum to join an independent Bosnian Serb state. This risks triggering a Croatian military offensive to prevent such a development, unless Mr Milosevic and Mr Tudjman can agree their respective territorial ambitions. Mr Izetbegovic has refused – pubbicly, at least – to envisage giving up any land allocated to the Moslems by the Vance-Owen map.

Lord Owen and Mr Stoltenberg, wbo has replaced Mr Cyrus Vance as the United Nations mediator, have been forced to admit that the original map dividing Bosnia-Hercegovina into 10 semi-autonomous provinces is no looger realistic.

Apart from the new reality resulting from Serb conquests, the Vance-Owen plan has been undermined by the joint action plan agreed by the US, Russia, France, Britain and Spain in Wasbington last month, providing for the creation of six UN-protected Moslem "safe areas".

The Washington decision gave the impression that the main western countries had accepted Serb territorial gains and would not insist on a roll-back of Bosnian Serb forces to the Vance-Owen borders.

That does not mean that the mediators are yet prepared to accept the demands of Mr Radovan Karadzic, the Bosnian Serb leader, wbo said before meeting Mr Milosevic yesterday that he would like to see Bosnia divided into three mini-states.

Radovan Karadzic at yesterday's talks. He favours three mini-states in Bosnia

Fiat admits £21m paid in kickbacks

By Haig Simonian in Milan

FIAT, Italy's biggest private-sector company, will tell shareholders it spent over L48bn (£21m) on kickbacks to win contracts when its full 1992 accounts are published at the end of this month.

The admission, part of a trend among companies enmeshed in the corruption scandal, represents a belated attempt to improve transparency for shareholders and possibly sidestep legal action for falsifying company accounts.

Fiat's balance sheet will sbow the vast majority of bribes were paid by its construction euhsidiaries. Fiat Impresit, the construction holding company, and its Cogefar Impresit subsidiary show total payments since 1990 of L15.9hn and L25.5bn respectively. In both cases, the bulk of the money changed hands in 1990, when the parent company paid L12.7bn and Cogefar Impresit over L15.3bn.

The payments disclosed by other parts of Fiat are much smaller. Most of the mooey changed hands via foreign bank accounts, paid directly to political parties or their middlemen. In many instances Fiat justifies the kickbacks on the grounds that non-payment would have excluded the group from important markets.

Court rules against closer public sector scrutiny

EC loses state aid case

By David Gardner in Brussels

ATTEMPTS by the European Commission to enforce higher disclosure standards for state aid to public sector companies were set back yesterday by a European Court of Jnstice ruling against the procedures Brussels had followed to introduce the measure.

The Commission said yesterday it would be repackaging the measure, as it has done after similar procedural slip-ups in the past.

The aim of the 1991 move was to uncover more of the illegal state aid which member states were not notifying to Brussels. State-owned manufacturing concerns with turnover in excess of Ecu250m (£197.5m) were required to submit balance sheets and profit and loss accounts for examinatioo, including for 1989 and 1990, the two years preceding the change in the rules.

Previously, state aids were notified by member states. But Sir Leon Brittan, EC competition commissioner at the time, reckoned that the inadequate rigour of the previous regime had let Ecu15bn in non-notified aid slip through the net over the previous five years, only Ecu5bn of which had been uncovered.

Though the crackdown was controversial and strongly contested by France and Italy, Brussels maintained this was an important distortion of competition. Illegal state aid in the public sector was 10-times the flow of non-notified public subsidy to private companies, the Commission maintained.

But after France challenged the measure, the Court in Luxembourg has found fault with the way the Commission introduced the measure, via an October 1991 "communication" to the Council of Ministers of the 12.

The Commission yesterday said it would be reintroducing the measures by seeking to amend the 1980 directive governing the financial relationship between member states and government-owned companies.

A viewer's guide to TV – for next four years

Andrew Hill explains what the EC's wide-screen TV 'action plan' will mean for all those who watch – as well as those who make – television

WHAT has happened?

Telecommunications ministers have agreed to spend Ecu228m (£180m) of the European Community budget over the next four years promoting wide-screen television services in Europe, after Britain dropped its veto on the plan.

The funds will be available only to broadcasters and programme makers to help tbem upgrade equipment, convert existing programmes into the new wide-screen format, and produce new programmes. Funds will only be released if industry or public institutions come up with matching investmeot.

Why is the deal important?

EC equipment manufacturers, satellite and cable TV operators, broadcasters, programme producers and electronics retailers believe it should provide a new product to energise tbe depressed consumer electronics market. Politically, the deal represents the end of a year-long struggle to persuade sceptical member states, in particular Britain, to accept that EC funding for advanced television is justified.

The "action plan" is supposed to lead to high-definition cinema-quality television. Advocates, such as the French and Dutch governments and certain European Commission departments, believe HDTV will be particularly suited to films, sport and wildlife programmes.

Some sceptics, however, think that consumsrs will be satisfied witb ordinary or snhanced pictures on wids screens and the final, costly step will only be taken some time next century, if at all.

But was not HDTV supposed to be the flagship of EC industry policy?

High bopes were pinned on HDTV. When the idea was launched in the mid-1980s the EC tried to set exclusive satellite transmission standards in an attempt to gain a lead over the US and Japan. But a combination of bad luck, misjudgement and political disagreement meant satellite broadcasters were able to begin transmissions using different, normal-definition standards. The action plan – much amended over the last year – is now less a flagship than a lifeboat for the original strategy.

How much has been spent so far on advanced television in Europe?

Difficult to say, because cash has come from the industry, national governments and the EC. Recent studies suggest that at least Ecu625m was spent on developing a European HDTV system between 1986 and 1992.

And what has been the result?

Mixed. Technically, equipmeot manufacturers – in particular Thomson Consumer Electronics of France and Philips of the Netherlands – have come up with a working HDTV system based on the original standards backed by the EC. But there is no programming and, consequently, no mass market for such a system because commercial broadcasters have taken a different path. However, the action plan agreed yesterday is not tied to a particular technology.

So what about Europe beating the Japanese and Americans?

It is now more a case of "if you can't beat them, join them". The Japanese already have a working HDTV system, bot its development is hampered by the high cost of sets – about Y1m (£6,000) apiece – and the scarcity and blandness of the programming.

The US, meanwhile, has been running a cootest for the best HDTV project using different technology, known as digital. The main contenders in that contest, including Philips and Thomson, are clubbing together to work on a single US digital HDTV standard. This was one reason why Britain refused to give its full support to the EC's plan based on existing analogue technology.

What is so great about digital then?

Digital technology can be broadcast from terrestrial transmitters as well as hy satellite and cable, and it allows broadcasters to offer far more services on the same channel than the analogue technology backed by the EC and Japan.

Digital television does not have to be high-definition. Europe is already preparing recommendations on digital standards, which will take into account work in the US and which could be ready by the end of the year.

So what sort of television will European consumers be watching by the end of the century?

Probably wide-screen, normal- or enhanced-definition pictures, perbaps broadcast digitally. Wide-screen sets are already available in continental Europe and were prominent at the television trade fair in Montreux last week. But the technology to create large, lightweight, flat-screen televisions is not yet ready for the market and the current sets are both bulky and expensive.

Do I really need these expensive new gadgets?

Probably not. But as advocates of wide-screen, cinema-quality television point out, it took a while for colour movies to catch on.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 6000 Frankfurt am Main 1, Germany. Telephone 49 69 156 850, Fax 4969 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 6078 Neu-Isenburg 4 (owned by Hürriyet International).
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Fund to back private power generation

By Stephen Fidler, Latin America Editor, in Caracas

A FUND with a target of \$500m (£324.6m) has been launched in the US to seek capital from investment institutions for private sector power projects in Latin America. The fund, said to be the first of its kind, has an initial size of \$75m and has been created because more and more governments are turning to the private sector to increase generating capacity.

The intention is to invest mainly in the equity of new private sector thermal and hydroelectric power stations and in the privatisation of existing plants in Latin America and the Caribbean.

Countries such as Chile, Argentina, Venezuela and Colombia have led the movement to private power generation. Mexico allows the private sector to invest jointly with the public sector, and in Brazil this week Mr Fernando Henrique Cardoso, economy minister, said the government would go ahead with the sale of power generation assets.

Governments are turning to the private sector in an attempt to reduce budget deficits. According to a World Bank study in 1989, state electricity sectors caused a \$2bn deficit in Latin America.

In some countries, regular power cuts are affecting growth. Colombia's economy suffered last year from cuts caused in part by a drought which exposed the country's over-dependence on hydroelectric power.

The capital needs are huge – estimated by the 1989 World Bank study at \$17bn-\$18bn a year in Latin America alone. There has been a shortage not only of equity, which the new fund will aim to help address, but also of long-term debt.

The latter has traditionally been provided for such projects by international financial institutions such as the World Bank and the InterAmerican Development Bank, but they are coostrained in their ability to lend to the private sector. Export credit agencies usually provide loans only up to a maximum of 12 years, whereas 20-year or 30-year debt is more appropriate for most power generation projects.

Another problem surrounds the region's underdeveloped domestic capital markets. The most advanced is Chile's, but that is only able to provide money up to 15 years.

Latin America and Caribbean are target of new US venture

A question mark for investors will be the regulatory regimes imposed on private power generation. Foreign investors will want to ensure a lasting pricing regime, which will not subject electricity prices to political pressure, and to keep foreign exchange risks to a minimum.

Mr Luis Luis of Scudder Stevens & Clark, the Boston-based investment management company managing the new fund, said he hoped the fund would stimulate similar financing efforts to provide a pool of capital for private sector power projects.

The fund, the Scudder Latin America Trust for Independent Power, will not be the prime sponsor or developer of projects but is meant to provide finance for projects started by others.

It starts with three investors committing \$25m apiece: the International Finance Corporation, the private sector affiliate of the World Bank; CMS Energy, a Michigan-based energy company which owns Michigan's largest utility; and Minneapolis-based NRG Energy, the owner of Northern States Power. The three will act as advisers to the fund, which is available to institutional investors.

Ilyushin wins first big order from west

By Paul Betts, Aerospace Correspondent

THE first airliner jointly built by Russian and US companies has won its first western order, at the Paris Air Show this week.

Partnairs, an Amsterdam-based aircraft trading and leasing company, has placed an order for up to 10 Ilyushin IL-96M, worth about \$700m (£454.5m).

The aircraft is Russia's challenge to the new generation of long-haul airliners from the European Airbus consortium and Boeing and McDonnell Douglas of the US.

Deliveries of the 318-seat Russian aircraft, powered by four US Pratt & Whitney engines and fitted with advanced US fly-by-wire technology and digital flight navigation equipment produced by Rockwell Collins, are due to begin in 1996.

United Technologies (UTC), Pratt & Whitney's parent company, said Partnairs had placed five firm orders for the new aircraft and taken options on an additional five.

The deal was worth about \$280m for Pratt & Whitney, according to a UTC official.

Ilyushin, together with the rest of the Russian aerospace industry, has been seeking to introduce western engines and avionics on Russian airliners to gain access to western markets and badly needed hard currency.

Tupolev has equipped its TU-204 mid-range 200-seater twin jet airliner with Rolls-Royce engines.

Russian airframe manufacturers could eventually pose a longer term challenge to western manufacturers because their products are priced about 25-30 per cent lower than equivalent western jets.

Ilyushin has about 40 firm orders and options for its new airliner, including Russian International Airlines, Aeroflot's international division.

Gatt acts on Russian application

By Frances Williams in Geneva

THE governing council of the General Agreement on Tariffs and Trade yesterday set up a working party to examine Russia's application to join the world trade body aod established a disputes panel on the European Community's new banana import regime.

Russia's membership bid was widely welcomed by many, including the US and the European Community, but tough negotiations lie ahead on its terms of entry.

President Boris Yeltsin, who met Mr Arthur Dunkel, Gatt's director-general, in Moscow last Friday, said he hoped Russia could join by the end of this year. However, officials in Moscow and Geneva believe membership in two to three years' time is more realistic.

Mr Sergei Glaziev, Russia's trade minister, said yesterday his country's accession to Gatt was an essential step in its integration into the global trading system, which in turn was vital for the success of economic and political reform.

The Gatt council also approved draft entry terms negotiated for Paraguay, which will join the 111-member organisation later this summer ooce procedural formalities are concluded. At the same time, the council expelled Serbia and Montenegro from the seat held by the former Yugoslavia.

In another development, the EC lifted its veto on establishment of an independent disputes panel to examine a complaint by five Latin American countries that the EC's new banana import restrictions violate international fair trade rules. The restrictions, which come into force on July 1, limit imports of Latin American bananas to 2m tonnes a year above which punitive tariffs are applied. Imports of bananas from African and Caribbean countries linked with the EC through the Lomé Convention will continue to enter duty-free.

The council failed to agree on whether the issue should be treated under "rules of urgency" as requested by the Latin American banana producers. These require the panel to report within three months rather than the usual six months. The decision will now be left to the panel.

The EC opposed adoption of an earlier panel report which condemned its axisting restrictions oo Latio Americao banana imports and, by extension, the Lomé Coovention itself as inconsistent with Gatt rules. Trade officials say the EC could seek a formal Gatt waiver for the convention, as the US has done for its Caribbean Basin initiative.

Trade ministers of the seven-nation European Free Trade Association, meeting in Geneva, said yesterday they expected the European Economic Area linking the EC and six Efta members in a giant free trade zone to come into force before the end of 1993.

Delays in ratification by three EC countries – the Netherlands, Spain and Britain – mean the EEA cannot take effect on July 1 as hoped.

US and Japan meet on chip share

US AND Japanese officials are meetiog in Washington this week to calculate the foreign share of the Japanese semiconductor market for the first quarter of 1993, as a measure of progress in resolving the long-running semicooductor trade dispute, Lonise Kehoe reports from San Francisco.

Coming amid US-Japanese efforts to establish a framework for negotiatioos to address a wide range of trade issues, the semiconductor talks are taking broader significance.

They will provide further evideoce of the success, or otherwise, of usiog "measurable indicators" of progress in US-Japan trade agreements.

In a 1991 semiconductor trade pact, Japan "recognised" a US industry target of a foreign market share of 20 per cent, to be achieved by the eod of 1992. The agreemeot stated that "particular attention should be given to market share" in assessing progress.

Yet, from a US perspective, the 1991 semiconductor trade agreement has beeo remarkably effective. To the surprise of many in the US semiconductor industry, the 20 per cent target was surpassed in the final quarter of 1992, when the market share proportion rose sharply to 20.2 per cent.

The increase was partly due to Japan's economic recession, which shrank the overall size of its semiconductor market. The figure for the first quarter of 1993 will similarly be influenced by market conditions in Japan.

The first-quarter market share figure is expected to be within a few decimal points of 20 per cent, up or down. Any significant decline in the first-quarter figure would be likely to raise a sharp response, from US trade officials and from industry executives. The Clinton administration is pressing for the inclusion of similar targets in future trade pacts with Japan.

The Japanese government is strongly opposed. Despite its agreemeot to the terms of the semiconductor pact, Japao says such targets represent a form of "managed trade".

Romanian N-plan for Bouygues

By Virginia Marsh in Bucharest

BOUYGUES, the French construction and engineering company, is negotiating to finance and help build a second unit at Romania's Cernavoda nuclear plant.

It has signed a letter of intent with Renel, Romania'a state electricity monopoly, according to a company spokesman. Repaymeot of the project's cost, which could total \$1bn (£640m), would be in electricity once the unit came on stream.

Work at Cernavoda, a Candu-type heavy water plant which was begun in the late 1970s, has been interrupted many times. The first 700MW unit, which is being built by Atomic Energy of Canada, Ansaldo of Italy, General Electric and Renel, is expected to start genersting power at the end of next year. Five units are planned at the site.

Cernavoda would be Bouygues' largest project in Romania to date. The company's first venture, the World Trade Ceotre costing \$120m, is due to open next year.

The company is also negotiating to build an office block in Bucharest's financial district and a 23-storey national communications centre for Romtelecom, the state telecommunications operator.

Japanese fear shift of output to China

By Robert Thomson in Tokyo

THE Japan Machinery Exporters' Association yesterday warned its members that they should be careful about investing in China, partly out of coocern about legal protection but also because of fears that Japan's domestic industry will be undermined by a shift of production.

A survey of 314 of its members revealed that 72 had invested in China or were planning to do so – a trend encouraged by the rise of the yen and by the poor profitability of many manufacturers, who want to cut production costs.

Mr Tetsuzo Yamamoto, chief of international research at the association, said the Japanese industry risked becoming "just a shell" if machinery manufacturers continued to transfer operations to China.

The association warned companies to be wary of inadequate legal protectioo in China, sometimes poor production quality and restrictions on sales to the Chinese domestic market.

● Japanese trading house Kinsho-Mataichi and shirtmaker Tomiya Apparel are to make shirts in Beijing for export to Japan. Initial annual output of 600,000 shirts is expected to increasing to 1.2m by about 1996.

Mercedes may make buses in Shanghai

By Christopher Parkes in Frankfurt

MERCEDES-BENZ is negotiating with Shanghai Automotive Industry Corporation to build up to 1,000 buses a year for the Chinese market.

The Daimler-Benz vehicles subsidiary, already in negotiations on a similar deal with the Jing Da automotive company in Beijing, said it might be possible for production of semi-knock-down kits to start on the Shanghai site before the eod of the year.

Mr Bernd Gottschalk, Mercedes director responsible for commercial vehicles, signed a letter of intent at the end of May, and attended opening talks in Shanghai last week.

The signing follows an earlier visit to the city by Mr Gerhard Liener, Daimler finance director, which also foreshadowed the recent announcement by the group's AEG subsidiary of a joint veoture to build metro railway carriages there.

Mercedes said it wanted to erect a purpose-built production plant and train Chinese workers to ensure quality standards were maintained.

The aim with the Jing Da project, talks about which appear to be progressing more slowly, is a start-up capacity for 500 buses a year, expanding quickly to 1,000.

Rao denies getting cash from Mehta

By Shiraz Sidhva in New Delhi and R C Murthy in Bombay

INDIA'S political and financial communities were shaken yesterday by sworn allegations from Mr Harshad Mehta, the stockbroker at the centre of the Bombay securities scandal, that he made a Rs10m (£210,000) secret payment in 1991 to Mr P V Narasimha Rao, the prime minister.

Mr Rao yesterday denied receiving money from Mr Mehta. Senior figures in the ruling Congress party also dismissed the allegations, and two of Mr Rao's main rivals within the party - Mr Arjun Singh, union minister for human resource development, and Mr Sharad Pawar, chief minister of Maharashtra state - described it as a conspiracy to topple the government.

An emergency meeting of the Congress working committee has been called for this morning, with many chief ministers flying into the capital from the states through the night.

At a press conference in Bombay, Mr Mehta, who faces charges of currency violations, fraud and bribery arising from the Bombay financial scandal which broke in April last year, released a sworn affidavit. It described in detail how he had personally delivered the money in two instalments to the prime minister's office in order to gain political patronage.

Mr Mehta's statement said that while he had been "painted the author of a scam" and made out to be "a person who had misappropriated national wealth to the extent of Rs50bn and badly damaged the country's economy," he was now seeking to clear himself and expose "the real culprits" of the scandal.

Mr Mehta, quoting an affidavit notarised by the Bombay High Court on February 24 this year, detailed his alleged meeting with Mr Rao.

In it he says: "On the 4th of November 1991, I met Prime Minister Narasimha Rao at about 10.45 in the morning, in the company of my brother Ashwin and a Congress Upper House member, the late Mr Satpal Mittal, at the Race Course Road residence of the prime minister... we had brought to the prime minister's residence, a suitcase containing cash amount of Rs6.7m. This suitcase was brought into the prime minister's house and handed over to the prime minister himself, who instructed that it should be retained in the charge of his personal assistant, Mr Khandekar."

According to Mr Mehta, the remaining Rs3.3m, which be could not immediately muster, was delivered to Mr Rao's assistant the following day, at the instance of the late Mr Mittal.

The Bombay stock exchange index closed 2.33 points lower at 491.43 yesterday as rumours spread that Mr Mehta was to unleash a political bombshell at his press conference.

Australia seeks funds to clean up N-test site

By Emilia Tagaza in Melbourne

THE AUSTRALIAN government will hold talks in London today seeking additional British funding to clean up former British nuclear test sites in South Australia.

Senator Gareth Evans, foreign minister, and Mr Simon Crean, energy minister, are to meet Mr Douglas Hurd, British foreign secretary, with new evidence suggesting Britain may have deliberately misrepresented the extent of radioactive contamination at the Australian test sites.

Under a previous agreement with Australia, Britain's responsibility to fund the clean-up of sites in Maralinga and Emu Plains in South Australia ended in 1968.

However, an article in the New Scientist reports that recently declassified American documents showed the British knew in the early 1960s that radioactivity at the test sites was worse than first thought.

Australia is now seeking A$60m (£26.50m) to clean up the areas, plus A$45m to compensate aboriginal tribes that originally occupied the sites.

The Australian government under Sir Robert Menzies, the then prime minister, offered the test sites to the British during the cold war years. Tests were conducted between 1952 and 1963. Nine atomic explosions were carried out at Maralinga and Emu Plains, in addition to three explosions off the coast of Western Australia.

Workplace union deals to be encouraged

By Alexander Nicoll, Asia Editor

THE AUSTRALIAN government plans to introduce legislation before the end of this year designed to accelerate the spread of workplace bargaining agreements between companies and employees, Mr Laurie Brereton, minister for industrial relations, said yesterday.

The Labor government of Mr Paul Keating is seeking to replace a centralised system, under which industrial relations commissions set most wages, with direct negotiation at company level in which productivity is a key element. This would be subject to a "safety net" stipulating minimum standards.

Nearly 1,000 companies have signed such deals but this represents only 11 per cent of the work-force. Mr Brereton, in an interview in London, said: "I would like workplace agreements to be the norm... That is the change of attitude that we want to create."

Mr Brereton said that trade unions, with which successive Labor governments has had a series of accords, were the driving force behind the trend towards workplace agreements and their target was for 70 per cent of the workforce to be covered by them.

Mr Brereton said the workplace agreement system would move Australia away from the craft-based union system inherited from Britain.

Syria-Israel talks make progress

By Julian Ozanne in Jerusalem

SYRIAN-ISRAELI peace talks in Washington were inching forward yesterday as both sides focused discussions on the "security regime" for the Golan Heights, land occupied by Israel in the 1967 Middle East war.

Mr Itamar Rabinovich, Israel's chief negotiator with Syria, said yesterday the Syrians wanted a comprehensive settlement. He said the way the talks were taking shape as security discussions between two states et peace had shown that Syria's concept of peace is more far-reaching then the Israeli government thought.

Mr Yitzak Rabin, Israeli prime minister, has so far refused to specify the extent of any withdrawal until Syria agrees openly to a "full peace" including diplomatic relations, trade and open borders.

However, it would be unlikely for Damascus to sign an agreement with Israel before substantial progress on the Israeli-Palestinian track of the Arab-Israeli peace talks.

Signs of Israeli optimism on the Syrian track came a day after the Clinton administration said for the first time it might be willing to guarantee security arrangements for the Golan deal.

However, on a visit to the northern border on Tuesday Mr Rabin said: "We'll make an effort not to pay this time the price we paid for the peace with Egypt" - a reference to Israel's complete return of the occupied Sinai to Egypt in exchange for peace in 1979.

Despite continued government spending in the Golan Heights, Mr Avraham Shochat, Israeli finance minister, said yesterday that he had told businessmen planning to invest millions of dollars in the occupied territory that investment was inadvisable in the long term.

Ronald Li, disgraced former Hong Kong Stock Exchange chairman, surrounded by the press after his release from prison yesterday

Hong Kong fifth round talks grind to a halt

THE FIFTH round of Sino-British talks ended in Beijing yesterday with little sign that the gulf separating the two sides over Hong Kong's future political development had narrowed, writes Simon Holberton in Hong Kong. Sir Robin McLaren, Britain's ambassador at Beijing and chief negotiator, described the talks as "normal" - an indication that the Chinese had not discussed substantive issues - but said the two had agreed to a sixth round of talks on June 23-25.

The Hong Kong government yesterday confirmed that Mr Chris Patten, the colony's governor, would fly to London later this month for high-level consultations about Hong Kong policy.

While in London Mr Patten will attend a meeting on July 1 of the British cabinet's Hong Kong committee, chaired by Prime Minister John Major. Mr Douglas Hurd, foreign secretary, and other senior British ministers will also take part in the discussions which are being billed as crucial for charting Britain's policy towards the Hong Kong talks.

Both Mr Patten and senior ministers in London are losing patience with China over the progress of the talks in Beijing.

Next month's meeting, the announcement of which is intended to concentrate the Chinese leadership's mind, is expected to endorse Mr Patten's policy of going "one extra mile" and leave with him the power to recommend termination of the talks.

Cambodia's top parties to share power

By Iain Simpson in Phnom Penh

THE TWO main Cambodian political parties yesterday agreed on a form of interim government under which they will share power while e new constitution is heing written.

Prince Norodom Ranariddh, head of the royalist party Funcinpec, which won most votes in elections last month, and Mr Hun Sen, until now prime minister in the Phnom Penh government, will be joint presidents. The two spent most of the election campaign making personal attacks on each other.

The agreement was proposed by Prince Ranariddh's father, Prince Norodom Sihanouk, who resigned from Funcinpec two years ago to become the neutral head of state. It has still to be ratified by the elected assembly, but the two parties hold most of the seats in the assembly and approval should be a formality.

Until now, Prince Ranariddh had said he would not work with Mr Hun Sen, whom he says is an unreformed communist who has ordered the killing of dozens of Funcinpec members. Mr Hun Sen's political star has risen sharply in the past days after a poor election performance. He is being credited with having defused an attempt to set up an eutonomous zone in eastern Cambodia.

The announcement of an interim government comes two days after the new assembly met for the first time and voted to give undefined and unlimited powers to Prince Sihanouk. However, according to a statement released by the royal palace last night, Prince Sihanouk will have no official role in the new government.

Nevertheless, the prince will preside over weekly meetings of the council of ministers held in the palace. Diplomats in Cambodia believe that will give him every opportunity to influence government policy.

Sri Lanka hopes for $800m in foreign aid

By Mervyn de Silva in Colombo

SRI LANKA hopes to get more than $800m in aid for 1994 from the World Bank-sponsored consortium which meets in Paris on Friday.

"The point is our economic liberalisatioo programme is on course and we were the pioneers in this region," said Mr Ranil Wickremasinghe, the prime minister, in an interview.

Donors bave also been impressed by the smooth transition after the assassination of President Ranasingbe Premadasa on May 1.

However, some of the more obvious vote-buying measures introduced by Mr Premadasa on tbe eve of recent provincial elections, such as price reductions and wage rises, may have to be ebandoned.

The civil war in the north and east still requires costly defence spending, the current budget for which is SLRs20bn ($419m) or more than half the aid receipts.

"We are receiving only one message from the donore - negotiate or else there may be humanitarian intervention," e central bank official said.

Mr Premadasa's policy was to rely on trade and investment, not aid. His successor is taking the same ronte.

LDP's reform bluff is called

Robert Thomson interprets the drama in Japan's parliament

THE WORDS *seiji kaikaku* (political reform) have echoed through the Japanese parliament for so long that they have lost resonance and relevance. But, with the ruling Liberal Democratic party on the brink of a split and the country facing a possible snap election, the words have suddenly acquired new meaning.

"Did you see the politicians fighting on television last night?" asked an excited Japanese bank official yesterday. Having been encouraged to be apathetic by the frequent broken promises for change, the Japanese have been exhilarated by the action-packed political theatre of the past few days and can look forward to a few more days of an intriguing plot.

One reason for the excitement is that two years ago Mr Toshiki Kaifu, the then prime minister, declared that be would pusb ahead with political reform regardless of opposition from the LDP's elders. Not long after his unexpected assertiveness, the well-meaning Mr Kaifu was bumiliatingly dumped by those same elders.

Things are different this time around. His successor, Mr Kiichi Miyazawa, has allowed the LDP elders to stall reform once again, but the party faces e revolt from younger members who are threatening to support a planned no-confidence motion today against the cabinet and may force Mr Miyazawa to call a general election.

The prime minister and most other LDP faction leaders had presumed that the political reform debate would take its usual course. Statements were made snpporting reform, breasts were beaten and fists ehaken, tbough these faction leaders had no intention of threatening their positions at the top of the political hierarchy by permitting radical change.

Until this week, the debate went as planned. The anti-reformers in the LDP proposed a system of single-seat constituencies to replace the present multi-seat system, which has been prone to corruption. LDP factions compete for seats in the same constituency, putting pressure on each other to raise ever larger amounts of money and to promise local voters ever more bridges and railway lines.

The system also makes young politicians dependent on faction funding for their campaigns, and ensures their loyalty to that faction in the parliament. In return, after five or so terms in office, the faction will provide the MP with e ministerial post, often regardless of suitability for the job.

'It's not just a matter of the system, you have to change the way of thinking'

It may appear that the supporters of a single-seat system are in favour of reform, and the proposal has been accompanied by the statement that "we must not compromise on our duty to reform the political system". But the LDP members proposing the single-seat system know that it will be rejected by the opposition, and the reform debate will be stalled.

The strategy of these LDP members, who are in the majority, was to suggest that they personally had pushed for reform, but to lament that the path was blocked by the four belligerent opposition parties. Opposition leaders generally favour a mix of proportional representation and single seats, fearing they would be slaughtered by the powerful LDP in e single seat shoot-out.

But the anti-reformers, led by Mr Seiroku Kajiyama, the LDP secretary general, now find that their bluff has been called. They were nervously ettempting to negotiate a peace settlement last night with the reformers, including Mr Tsutomn Hata, the former finance minister who recently turned down a cherished appointment as foreign minister to concentrate on changing the political system.

In normal circumstances, the LDP would have the numbers to defeat a no-confidence motion, as the party has 278 members oot of the present total of 496 representatives in the lower house, where the vote would be put. The problem is Mr Hata has 35 members in his faction, and all are apparently prepared at least to abstain - or perhaps even vote against the government.

"We have said that we are in favour of reform and we must take appropriate action to secure reform," Mr Hata said last night. If he can convince enough young LDP members outside his faction to abstain, then Mr Miyazawa will be defeated without Mr Hata having to vote in support of the opposition and risk acquiring the tag of traitor.

A shaken Mr Miyazawa has suggested that he is not afraid to call an election. However, recent opinion polls put his cabinet's popularity rating at a meagre 25 per cent, and he is likely to have lost some of that support in recent days because of his indecisiveness during the last week.

Even if there is an election and the LDP is pounded at the polls, and even if a new electoral system is introduced, the old relationships and factions will not necessarily lose their influence. As Mr Hata has suggested, "it's not just a matter of changing the system, you have to change the way of thinking".

Inkatha may be bypassed in talks

By Patti Waldmeir in Johannesburg

MR Nelson Mandela, leader of the African National Congress, yesterday warned that talks on e new South African constitution would go ahead with or without the Inkathe Freedom party of Chief Mangosuthu Buthelezi, his main black rival.

The future of the talks will be decided today when delegates from Inkatha and other conservative groups return to the negotiating table to report on whether they intend permanently to withdraw from the talks. Six conservative parties, known as the Concerned South Africans Group (Cosag), provoked a crisis on Tuesday when they staged e walkout.

Mr Mandela took a tough line against the dissenters yesterday when he told a crowd in Soweto: "We want to warn them that no party will be able to hold the multi-party negotiations to ransom." He was speaking at a rally to mark the annual "Soweto day" unofficial holiday, observed by blacks to commemorate anti-apartheid riots in 1976, the spark which led to eventual uprisings in the 1980s which helped prompt political reform.

Yesterday Chief Buthelezi defended his delegation'a decision to lead the walkout, accusing the government and ANC of arrogance and saying his group had drawn a line against "those who have been attempting to manipulate the process of the constitutional development of our country while disregarding the real aspirations of the majority of South Africans".

He demanded a full debate on wbether Sonth Africa should be a federation or a unitary state, an issue which the negotiating forum has avoided.

The dispute centres on whether Inkatha and its allies, which include the white right-wing Conservative party, will be allowed to exercise real power within the negotiations, or simply be called on to rubber-stamp a constitution which has already been agreed in outline between the ANC and the government.

In their haste to implement their draft constitution, calling for a five-year multi-racial government of national unity, the government and ANC have tended to ignore concerns of regionally-based parties such as Inkatha for maximum devolution of power.

On Tuesday the ANC and government bloc threw out a resolution from Inkatha's sister delegation, the KwaZulu "homeland" government, calling for debate on a federal constitution. In a crucial test of the "sufficient consensus" rule by which decisions in the 26-party forum are taken, the talks chairman threw out the resolution, declaring that it did not have sufficient consensus.

In effect, this means the assent of Inkatha and its allies is not necessary for sufficient consensus - and that the forum can overrule Inkatha in all matters.

Buoyed by recent evidence of white support for Inkatha, Chief Buthelezi may believe he can gain concessions by staging a tactical walk-out. The risk is greater that the Conservative party will quit the talks permanently.

Editorial Comment, Page 11

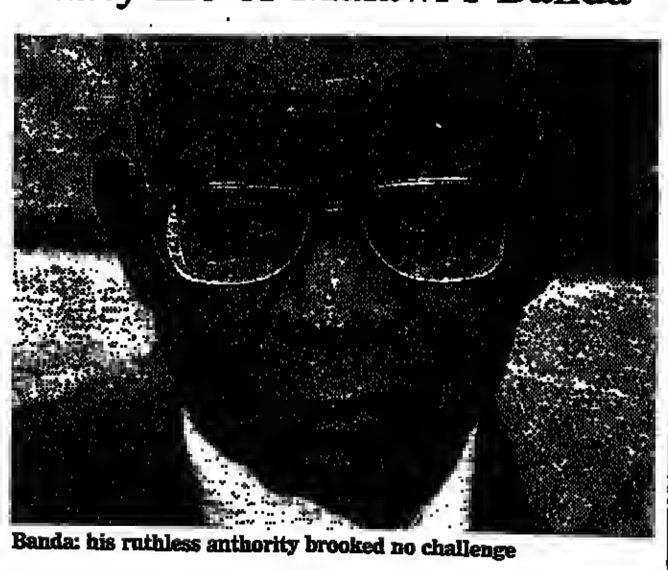
An African Victorian without rival

Michael Holman relates scenes from the extraordinary life of Malawi's Banda

Malawi voted by almost two to one to endorse multi-party democracy. Results yesterday from a referendum on Monday delivered a stinging snub to repressive President Kamuzu Banda, and thousands took to the streets in celebration, Our Foreign Staff writes.

Dr Banda, who has run the country since independence from Britain in 1964, called the poll under pressure from donors. The opposition will now press for speedy installation of a multi-party transitional government to draw up a democratic constitution and elections by the end of the year.

Mr Chakufwa Chihana, leader of the opposition Aford group who was freed from jail last Saturday after serving six months for sedition, said Dr Banda's days in power were now numbered. "There is no way Banda can be resurrected."



Banda: his ruthless anthority brooked no challenge

MAMA has marked the qnestions you may not ask, said the minister. Sitting in an ante-room in Blantyre'e Sanjika presidential palace, we were awaiting the summons from the *Ngwazi* (saviour).

The vetting by "Mama" Cecilia Kadzamire, former presidentiai nuree and Malawi's official hostess, was a pre-condition to Dr Hastings Kamuzu Banda's first press interview for more tban 15 years. It may well have been his last.

Now in his mid-90s, the combination of age and domestic opposition, unambiguously reflected in the results of Monday's referendum on multi-party elections, is bringing Dr Banda's career to an end.

But when the interview took place in 1985, his ruthlese authority brooked no challenge. Two years earlier three cabinet ministers had beeo aesassinated, their deaths blamed on a car crash, victims of suspicions real or imagined.

The forbidding figure who sat before me was e disquieting mix of Victorian and voodoo. His sombre three-piece suit fitted his status as an elder of the Church of Scotland. But the accompanying fly-whisk seemed a symbol of a supernatural power that leaves cabinet ministers visibly terrified in his presence.

In an effort to break the ice, I began the interview by recalling that as a young schoolboy in the Rhodesian (now Zimbabwean) town of Gwelo I used to cycle past the jail where he was detained in 1959, and wonder how he was faring.

Malawl's life president remained silent, seemingly glacial in his indifference. I started oo my truncated question list, from which "Mama" had removed questions about diplomatic ties with South Africa and his scorn for the Organisation of African Unity.

Tbe Ngwazi interrupted: "Tell me more about Gwelo." My recollections of small-town Rhodesia included a year confined to the white area of Gwelo by e government restriction order. "Tbe police knocked on the door at about 5.30 in the morning...", I began.

Dr Banda interrupted again, chuckling. "It always seems to happen around that time," recalling his own arrest. The ice was broken.

For nearly an hour he reminisced about his campaign against the Central African Federation of the Rhodesias and Nyasaland (now Malawi), the struggle for independence from Britain, and expounded his philosophy of hard work and self-sufficiency.

From the day he took office in 1964 the medical doctor who trained in Edinburgh and ran a popular eurgery in London imposed these values on Malawi.

On a continent where authoritarian government was usually accompanied by economic mismanagement, Dr Banda's approach at first succeeded.

He inherited an impoverished state with no exploitable mineral resources, 120 miles of tarred road, and a handful of university graduates. By concentrating on agriculture and encouraging commercial farming (notably tea and tobacco), and witb support from aid donors, real growth in gross domestic product everaged 5 per cent until 1979.

But the 1980s saw a reversal of past gains as domestic failuree were compounded by external difficulties.

Ministerial reluctance to offend Dr Banda impeded reform of Press Holdings, at that time a state-owned conglomerate. The president treated it as his commercial fiefdom, funding the building of several presidential palaces and other follies.

Peasant farmers suffered under a crop pricing policy which benefited state coffers but eroded growers' incentives. Meanwhile the war in neighbouring Mozambique cut off landlocked Malawi's shortest routes to the sea, forcing the country to use costly alternatives through Tanzania and South Africa.

Contributing to economic problems which led to a 4 per cent fall in GDP last year was the fall in foreign aid flows in response to continuing human rights abuses. During 1992 hundreds of government opponents were arrested, held for several weeks, and often tortured, said a report by Amnesty International last month.

What seems unlikely is that Dr Banda will surrender power lightly or gracefully. "I have no regrets whatsoever," he told me as the interview ended.

I saw him again, two years later, at a party rally. A frail, diminutive figure, Homburg, suit, and dark glasses, fly-whisk in hand, stepped down from the podium to join his dancing *mbumba*, the buxom women bedecked in cotton prints bearing his portrait. The vigilant security men relaxed. The president was safe in the bosom of the nation, only the occasional flash of the whisk above tbe bobbing beads revealing his presence.

Mexico fires agents in drugs purge

By Lucy Conger in Mexico City

MEXICO has sacked 67 members of the federal anti-drugs squad, including 13 commanders, in a crackdown on collusion with traffickers. They will be arrested if investigations show proof of criminal activity, the attorney general's office said yesterday.

A further 75 agents based in the state of Sinaloa, an important centre of trafficking, are reported to have been transferred to Mexico City for interrogation about links with the illegal drugs trade.

The authorities have also detained for questioning Mr Rodrigo Esparza Cristerna, the attorney general's representative in the state, suggesting that investigations may reach beyond the security forces.

President Carlos Salinas's administration has stepped up its campaign against drug trafficking in the wake of a shoot-out last month between rival gangs at Guadalajara airport when seven people were killed, including a Roman Catholic cardinal. The incident shocked Mexican society and brought bome tbe ease with whicb cocaine rings operate in the country.

Since then, a string of arrests has been mada in an attempt to curb the Sinaloa cocaine cartel, culminating in tbe detention on June 6 in Guatemala of Mr Joaquin Guzman Loera, its alleged head.

However, even these successes have proved controversial. Questions have been asked wby all tbe initial arrests related to the airport shootings have been of Sinaloa cartel members, while no members of its Tijuana rival have been detained.

Churchmen have also voiced doubts about the official theory that tbe cardinal, sbot at point-blank range, was mistaken for a trafficker.

There is some scepticism about tbe extent and durability of the drugs crackdown. The operation against Mr Guzman "fits with the Salinas strategy of spectacular strikes that don't ultimately change the balance of power," said Ms Denise Dresser, political scientist at the Autonomous Technological Institute of Mexico.

OBITUARY

Connally always in LBJ's shadow

Connally (centre) pictured with the Kennedys arriving in Dallas in 1963 on the day the president was assassinated

JOHN Bowden Connally, who died on Tuesday at the age of 76, might have been the second coming of another lagendary politician from Texas, Lyndon Baines Johnson, but in the end the most important national post he held was as US Treasury secretary from 1971-72.

Silver baired and silver tongued, the Democrat-turned-Republican lawyer from Floresville, Texas, always aimed high and thought big.

He cut his political spurs running LBJ's first campaign for the House and as his administrative assistant in the Senate in the late 1940s, and his business ones as a legal adviser to Mr Sid Richardson, the notorious Texas oilman, in the 1950s.

With these connections and credentials, President John F Kennedy named him secretary of the navy in 1961. Two years later he was governor of his native home state. On November 23 that year in Dallas he was in the car in which the president was assassinated and he was himself severely wounded.

Three times elected governor, be was nonetbeless increasingly out of sorts with the national Democratic party as it swung to the left. In 1971, while retaining bis nominal party loyalty, he took the extraordinary political gamble of accepting President Richard Nixon'a invitation to become Treasury secretary. He only formally became a Republican after LBJ's death in 1973.

The two years he served Mr Nixon were distinctive, to put it mildly, as he imposed his style and bluster on the US and the global economic community. Not only did he preside over the imposition of wage and price controls in 1971 but he also supervised the demise of the Bretton Woods system of fixed exchange rates when he took the US off the gold standard at the Smithsonian Institution in Washington in the same year.

Mostly untainted by the Watergate affair, but not by subsequent financial scandals of his own, Mr Connally so impressed Mr Nixon that the president had to be dissuaded in 1972 from ditching vice-president Spiro Agnew in his favour.

Mr Nixon returned the compliment in his final days by trying to block federal charges that Mr Connally had accepted illegal political donations from the milk lobby (he was subsequently acquitted).

But by then it was already assumed that his sights were set on the White House itself. In this he never got far past the starting post, neither in 1976 nor, most ignominiously, in 1980 when he spent more than $12m from his own pocket and secured precisely one delegate to the Republican convention that year.

He was heard making complimentary noises about a fellow Texan, Mr Ross Perot, in last year's election.

The 1980s were generally a disaster. A real estate venture with a former Texas lieutenant governor went sour, forcing him to file for bankruptcy and to put up his considerable private collection of art, furniture and assorted mementoes for public aucbon.

But be remained active in Texas politics until the Senate primary two months ago when he sought to prevent the victory of Mrs Kay Bailey Hutchison, installed this week as the new Republican senator.

Mr Connally was always known for his quotability. One that has endured for for nearly 20 years was a famous blast against Japan, when he threatened that if he had his way their cars "would never leave the docks at Yokohama".

His failure to achieve his ultimate ambition may be ascribed to several factors.

He was a political turncoat and was thus spurned by Democrats, wbile never fully trusted by Republicans, and was ultimately upstaged by Mr Ronald Reagan, ironically also a turncoat but without Mr Connally's reputabon as an opportunist.

His financial wheeling and dealing, if very much in the Texas mould, also looked out of place in the post-Watergate era of a new morality.

He ended where be began, in LBJ's long shadow, teaching an occasional class in political science at the department of the University of Texas named after tbe former president. It was said to be wildly popular.

Modest pick-up in US economy

By Michael Prowse in Washington

THE US economy is growing at a steady but moderate pace, figures for factory output and the housing market indicated yesterday.

The Commerce Department said industrial production rose 0.2 per cent last month and 3.5 per cent in the year to May. It revised upward production figures for March and April to show monthly gains of 0.2 per cent, rather than the zero and 0.1 per cent increase previously reported.

The figures for factory output represent a sharp slowdown from winter, wben monthly gains averaged about 0.7 per cent. The weakest sector last month was vehicle production, whicb fell 3.6 per cent relative to April. However, most analysts expect firmer industrial growth later this year provided domestic demand continues to revive after a weak first quarter.

Housing starts rose 2.4 per cent between April and May to a seasonally adjusted annnal rate of 1.24m. Figures for April were revised upward to show an 8.1 per cent increase from March.

The recovery of starts followed sharp declines in the first quarter when bad weather hit the housing market. Last month's increase was concentrated in the mid-west and south.

Building permits – a guide to future construction plans – also rose modestly last month after a sharp gain in April.

The two sets of figures point to a modest acceleration in economic growtb this quarter after a disappointing 0.9 per cent annual rate of expansion during the year's opening three months.

Wilson: Nafta role

Mulroney stalwart to quit politics

By Bernard Simon in Toronto

ONE OF the atalwarts of Canada's outgoing Mulroney government, trade minister Michael Wilson, will leave politics after the general election later this year.

Mr Wilson, 55, was finance minister for seven years, and then led Canada's participation in the North American Free Trade Agreement.

He is one of several senior ministers wbo are stepping aside to allow Ms Kim Campbell, the prime minister-elect, to put her own stamp on the Conservative government ahead of the election.

She will unveil her cabinet when she is sworn in on June 25. Her immediate challenge is to maintain unity within the party's Quebec caucus which was strained during the recent leadership race.

Ms Campbell won the backing of several senior Quebec nationalists. But her main rival for the leadership, Mr Jean Charest, is a stauncb federalist. He is expected to be offered the post of either deputy premier or Ms Campbell's chief Quebec lieutenant.

Others in the Mulroney inner circle stepping down are Mr Donald Mazankowski, deputy prime minister and finance minister, Ms Barbara McDougall, external affairs minister, and Mr Joe Clark, constitutional affairs minister.

Du Pont offer to critics of fungicide

By Karen Zagor in New York

DU PONT, the US chemicals group, yesterday challenged its critics to prove that its Benlate DF fungicide had damaged crops when used as labelled, and appointed an outside director to serve as ombudsman on the issue.

The company, besieged with lawsuits over Benlate and allegations that it withheld important documents from growers, said it would pay for testing the product at any of the top 10 US agricultural universities for any plaintiff with a current lawsuit.

The move follows a decision by federal judge Robert Elliot to direct a jury to find Du Pont liable for Benlate damage. Judge Elliot concluded at a pretrial hearing on Friday that plaintiffs had clearly demonstrated that Du Pont withheld documents relating to the cross-contamination of Benlate with crop-killing herbicides also made by Du Pont.

As part of its offer, the company said it would pay for crop damage if the tests proved Benlate caused the damage claimed in the suit. However, Dn Pont will ask plaintiffs to agree to withdraw their suits if the tests show Benlate did not damage plants.

In addition, Du Pont asked its outside director, Mr Howard Johnson, former chairman of MIT Corporation, to serve as ombudsman with power to retain independent counsel to probe the allegations of wrongdoing and to report his findings to the public. It said anyone with knowledge of an instance where evidence had been withheld in bad faith or data falsified about Benlate should contact him.

Du Pont has already paid growers $500m (£324.6m) in voluntary settlements but the company suspended payments in November after its research failed to duplicste the effects attributed to Benlate.

Government U-turn softens impact of oil taxes

Deborah Hargreaves and Alison Smith report that rebel Tory MPs may press for further concessions over budget pledges to alter PRT in the North Sea fields

THE GOVERNMENT yesterday bowed to pressure from Tory backbench MPs over proposed changes to North Sea oil taxes, extending short-term help for companies worst affected by the changes.

Although the treasury said no new government spending would be involved, the change means that companies will find it easier to claim the £200m in aid which was earmarked – with tight restrictions – in the March budget.

But the amendments proposed by the treasury may not go far enough to stem a backbench rebellion and the government may be forced to make further concessions.

Mr John Butterfill, one of the leading Tory campaigners against the original budget proposal, called the concession a very small move in the right direction. Mr John Watts, the Tory chairman of the cross-party treasury committee of MPs, welcomed the move but said he hoped the government could be persuaded to move a bit further.

The proposed changes to petroleum revenue taxes announced in the budget caused a furore among many smaller companies in the oil industry because they abolished relief for exploration work. Companies said it would lead to a halving of exploration activity and the loss of up to 30,000 jobs.

But larger companies such as British Petroleum welcomed the proposed reduction in the tax rate for existing oilfields from 75 per cent to 50 per cent.

The treasury yesterday admitted that its original budget proposals had made it too difficult for companies to claim transitional help to cushion them from the initial effects of the tax changes.

In yesterday's amendment, the government said it would allow companies to claim up to £10m each until the end of next year for exploration work that will be affected by the abolition of tax relief.

Mr Butterfill said that he and others would still press for the relief to be extended until 1996.

Companies will be able to claim interim relief on wells they had committed to drill as part of obligations made to the Department of Trade and Industry in order to win licences to explore in the North Sea.

The DTI was understood to be pushing the treasury to loosen its restrictions on transitional aid. Mr Tim Eggar, energy minister, said this week that applications for seven blocks in the latest oil licensing round had been withdrawn as a result of the PRT changes and that some companies had scaled back plans.

Last week, more than 20 Tory MPs attended a meeting organised by Mr Cranley Onslow, former chairman of the Tory backbench 1922 committee, to hear complaints from the oil industry that it was already losing contracts because of the government's decision.

Backbenchers are likely to discuss the change with the oil companies before deciding how much further to press the government.

Decline in May retail sales is blamed on bad weather

By Peter Norman, Economics Editor

Britain's public finances moved further into the red last month as the public sector borrowing requirement grew to £5.01bn from £4.71 bn in April and £3.13bn in May last year.

Official figures released yesterday showed that the UK's PSBR or budget deficit increased to £9.7bn in the first two months of the current financial year from £6.6bn in the same period of 1992-93 reflecting continued strong growth of government spending and sluggish increases in tax revenues.

The higher PSBR largely reflected a rise of only 2 per cent in central government cash receipts to £32.8bn in April and May from £32.1bn in the same two months of last year.

BRITISH retail sales posted a small decline in May for the second month in a row but government statisticians and retail sector representatives said the fall reflected bad weather rather than economic weakness.

The Central Statistical Office said seasonally adjusted retail sales fell by an estimated 0.2 per cent in volume terms in May after a 0.2 per cent fall in April. Sales volumes in May were 2.3 per cent higher than in May last year – the smallest year-on-year increase since December.

The CSO said last month's decline in sales reflected a sharp 5.9 per cent drop in clothing and footwear sales as miserable weather conditions dissuaded consumers from buying summer outfits.

According to the British Retail Consortium, which claims to represent more than 90 per cent of retail outlets, turnover of do-it-yourself stores was also depressed because the late May bank holiday was the last day of the month and its sales will be counted towards June.

But other CSO figures pointed to a slowdown in the growth of retail sales since the first quarter. Taking three-month figures – which the CSO says give a better guide to underlying trends – retail sales rose 0.8 per cent in the March-to-May period compared with the previous three months and were 3 per cent higher than in the same period of 1992.

By contrast, sales in the first quarter were up 1.6 per cent on the final quarter of last year and 3.3 per cent higher than in the first quarter of 1992.

Mr Peter Spencer, chief economist of Kleinwort Benson, the UK investment bank, said stronger growth of banknotes and coins in circulation so far this month also pointed to a revival of retail sales in June.

The Treasury was untroubled by the slight dip in May retail sales: "If consumer spending is holding up, without going mad, while manufacturing output and exports grow, it means we have the sort of recovery that we want."

Censure for Goldman Sachs over Maxwell

Bronwen Maddox on yesterday's £160,000 fine

When Goldman Sachs, one of the most prestigious names in international merchant banking circles, was fined £160,000 by the UK Securities and Futures Authority, the self-regulatory body, it was the first formal censure of its activities in relation to the late Mr Robert Maxwell.

The fine was for violations of securities rules in transactions with Maxwell companies. The SFA did not conclude that Goldman or its personnel participated in, or were aware of, illicit conduct.

The bank was a party in transactions which have been, or still are, the subject of inquiries by the Department of Trade and Industry, the Stock Exchange and the Serious Fraud Office. Goldman Sachs officials have said that the bank acted in all times in good faith and was unaware of possible irregularities. Yesterday's fine does not rule out further actions against the investment bank by the SFA or any other bodies.

The SFA charges relate to three separate purchases of portfolios of securities, two of them from Maxwell-controlled fund managers which tovested assets on behalf of pension scheme members. The third, and most significant, charge relates to the purchase of a block of securities from a company at the heart of Mr Maxwell's network of private companies.

In each case, Goldman Sachs paid for the portfolios immediately, but did not receive all the securities until up to three months later, effectively providing a loan to Mr Maxwell. Goldman Sachs failed to record this practice properly, and to reflect it in its reports of its capital position to the SFA.

In the third case Goldman officials did not seek internal credit approval for the "free payment". Also in that case, Goldman Sachs Equity Securities (UK) "for seven business days had a deficit in its regulatory capital ranging between £9m and £20m and submitted materially inaccurate information in its July (1991) monthly reporting statement," to the SFA.

The significance of the charges is that "loans" occurred during a time when it is now known that Mr Maxwell's companies were becoming desperately short of cash. One of the questions raised by investigators is whether any of the banks which dealt with him in that period should have probed more deeply into his financial condition.

For years before Mr Maxwell's death, Goldman Sachs was one of the main banks used by the 800-odd companies under his control. The firm was never formally appointed as an adviser but was extensively used by the Maxwell empire for trading currencies and shares. It was also one of the stock market's most prominent buyers of shares in Maxwell's two publicly-quoted companies, Maxwell Communications Corporation and Mirror Group Newspapers in 1990 and early 1991.

In the weeks before Maxwell's death and in the days immediately afterwards, Goldman Sachs reduced its holding in MCC shares - it appears because of his failure to repay loans. The share sales led to a cooling of the relationship between Mr Maxwell and the bank by the time he died.

The scene yesterday, complete with defiant placards, outside the Dundee Timex plant

Timex denies planning plant closure

By James Buxton, Scottish Correspondent

TIMEX'S FAILURE to end the conflict with its sacked workforce in Dundee clinched its decision to close the electronics plant, the company indicated yesterday.

The underlying reason for the closure was its weak financial state and its continuous losses over the past five years, totalling £10m.

The US company denied allegations by the sacked workforce that its long-term aim had always been to close the plant. Its intention had been to upgrade its capabilities and reduce operating costs, to make it a "world class manufacturer".

The company explained that "the backdrop of conflict places too much strain on the organisation. We fully expected a picket on the factory gate for a long time. But we never thought there would be mass picketing with violence".

He said it had never been the totention of the company to rehire selectively from among the sacked workforce after the legal prohibition on doing so expired 90 days after they were sacked on February 17.

The company made an offer on June 3, substantially repeated on Monday, in the hope to ending the conflict. It offered to re-employ those sacked workers who were judged by independent consultants to have the "skills and commitment" for world class manufacturing. The rest would be given redundancy.

The company accepted that many sacked workers would not want to return and work alongside the "scab" replacement workforce.

The offer was not accepted by the sacked workforce which demanded the reinstatement of all 343 dismissed ataff, a demand decribed on Tuesday by Mr Mohamed Saleh, head of human resources for Timex in the US, as "living in the never-never land".

The company said it had been left "financially exhausted" after the strike in January. But it had a full order book, had lost no customers because of the dispute and was in a state of "fragile recovery." It had announced £5m of new orders in early June and had wanted to increase its 260-strong labour force by 200.

Mr Peter Hall, who resigned as president of Timex Electronics on Sunday, yesterday refused to explain his departure from the company. At his home at Godalming, Surrey, he said: "I suppose closing a plant is an option in any company's existence. I hadn't been expecting it to happen yesterday [on Tuesday]. I was sad when I heard about it."

Mr Charles Fairley, chief executive of Scottish Enterprise Tayside, does not believe there was any grand design to close the plant. He had discussions with Mr Hall before the dispute began. "Timex has become a sub-contractor of printed circuit boards. He wanted to launch new products and expand production to Dundee. But he needed to increase productivity. This hardly suggests he had a master plan to shut the factory down."

Mr Charlie Malone, sacked shop steward for the AEEU engineering union, and chair of the strike committee, said: "The pickets and the protest will continue because there are important issues to resolve. We must sort out what orderly withdrawal means."

Ms Margo Bell, who worked for the company for 27 years, says: "They are trying to get coolie labour. How would you like it if you were asked to accept a 27 per cent pay cut? We want reinatatement at proper wages if not with this company then someone else who would take it over."

Agent's name is mud to those who lost their fortune

Tony Gooda, former Lloyd's agent, says he has done nothing wrong. **Richard Lapper and Norma Cohen report**

Mr Tony Gooda's easy charm and social prowess may have been the key to his success as a Lloyd's agent, but they cannot shield him from the bitterness and venom his Names now feel towards him.

Around Coneyhurst, West Sussex, in London's commuter belt where Mr Gooda lives in a restored 17th century farmhouse, tha former chairman of the Gooda & Partners members' agency is reviled by neighbours and former golfing partners alike.

"My wife saw Tony Gooda in Budgens supermarket. She said 'You dirty sod, why don't yon commit suicide?'", says one Name, who used to socialise with Mr Gooda.

One neighbour crosses the road when he sees the former Lloyd's agent. "He never said 'bad luck' or 'How are you surviving?' There was not a single word of regret. It had been a 30-year friendship," says the man who used to play golf with Mr Gooda.

But Mr Gooda defends his record as an agent. "I've done nothing wrong. I am not going to run away and hide. I never asked Names to join Lloyd's ever," he says.

He adds that most of more than 250 Names – whose capital underwrites the insurance market – who joined Gooda & Partners, approached him through friends or other contacts. "I know you find it hard to believe that I never knocked on people's doors."

Mr Gooda says he is also ruined because he invested his own money and that of his wife, who is seriously ill, in the same syndicates as his Names. He is so financially ruined that he has had to apply for help from Lloyd's hardship committee to stave off personal bankruptcy.

Tanned, fit and looking younger than his 55 years, Mr Gooda is far from relaxed: "I have been bombarded by letters and phone calls. All of them aggressive, all highly critical," he laments. "There aren't words in describe the way I feel. Is there a word that is worse than 'very upset'?"

His fall from grace has been spectacular. At the West Sussex Golf Club where Mr Gooda held lavish "golf days" in the heyday of the Lloyds market in the mid-1980'a, he says his attendance has been reduced to a single game a year.

To comprehend the sense of outrage and betrayal of Mr Gooda's Names, you have to understand the manner in which they came to stake fortunes on a business which many did not understand.

Underlying the recruitment process was the sense that Mr Gooda embodied the middle class respectability and easy wealth of the English Home Counties.

"I knew where Tony Gooda lived and where he drinks on a Sunday morning at the Selsey Arms in Coneyhurst. He used to leave his Porsche outsida," says Mr Hugh Taylor, who joined Lloyd's in 1985 and now faces ruin. "We'd been on a skiing party together. His sister married my wife's brother. I was at the wedding at his father's house in Coolham."

Names say that Mr Gooda underplayed the risks of Lloyd's membership and concentrated them on high risk catastrophe syndicates. Mr Richard Godden, a retired businessman who joined Lloyd's in 1985 and now faces losses of more than £600,000, says: "I emphasised I didn't want to be greedy. Ha said it was a good spread."

Mr Gooda says: "My job as a membars' agent was to point out the risks." In particular, in short meetings in his London offices with Names, Mr Gooda says he explained the concept of "unlimited liability", by which names could be liable for all their assets to meet claims on policies underwritten by their syndicates. He pointed out the agency's policy was to place its Names, at least initially, on the seven syndicates managed by its sister agency, Gooda Walker Ltd.

Three of these syndicates specialised in the rapidly growing catastrophe reinsurance market.

But Mr Gooda concedes that he never explained in detail the potential risks of this kind of business. "Nobody would have joined Lloyd's if they had been fed the information you are implying we should give. It would take six months to do it.

"I certainly pointed out the risks. Whethar they took it on hoard I doubt. I explained it all in very simple terms. No promises were made for the future."

Other Names allege that Mr Gooda did not advise them to buy stop loss insurance – a kind of personal reinsurance – which would have limited their losses.

Mr Gooda says he tnld Names that stop loss was expensive and that he never bought a policy for himself but insists: "I never said 'Don't take one out'."

Names also complain that they were not informed about the way their syndicates losses worsened in 1989 and 1990. "We had no indication of the results for 1989 when they were aware there would be substantial losses," says Mr Taylor.

Ms Gill Cotterell, who joined Lloyd's through Gooda in 1987, complains that Mr Gooda persuaded her to increase her commitment to the market at a time when many of the syndicates to which she belonged faced heavy losses.

Mr Gooda cannot remember how many letters his agency wrote but insists that the objective was to keep Names "fully informed at all times". "I think it was October 1989 that the figures started coming through. Then we just started fire fighting," he says.

Mr Gooda's former friends and neighbours are unconvinced. "He doesn't seem to have any conscience," complains Mr Godden. "His name is mud round here."

Gooda Walker Names face fresh cash call

Lloyd's Names in the insurance market's worst hit syndicates which has already reported losses of more than £900m face a further pay-out of £157m by the end of July.

The 4,500 Gooda Walker Names – the individuals whose assets anpport the Lloyd's of London insurance market – will be asked to pay an average of £35,000 per head.

The syndicate's members facing this latest blow include 15 Tory peers, Mr Paul Marland, the Conservative MP and former England tennis champion Mr Buster Mottram.

GW Run Off, the agency supervising the affairs of seven stricken syndicates, reported combined losses for 1989, 1990, 1991 and some earlier years of £900m, a slight fall from an earlier estimate of £924m.

However, Mr Ken Randall, a director of GW Run Off, who is investigating the syndicates, expects the total loss to rise to more than £1bn, about one sixth of Lloyd'a total losses of more than £6bn in the past five years. Lloyd's will report record 1990 losses of between £2.5bn and £2.8bn next week.

The Serious Frand Office reaffirmed yesterday that it is considering a report hy Mr Randall into the Gooda Walker syndicates submitted to it in April. The SFO insisted however that its "vetting" of the report "is certainly not an investigation".

The Randall report alleges that Gooda Walker syndicates artificially inflated profits during the 1980s through the improper use of "time and distance" (T&D) policies – reinsurance policies which allow Lloyd's syndicates to manage their reserves against so-called long-tail claims more effectively. Long-tail claims are those which emerge many years after the inception of policies.

Both Mr Randall and Mr Deeny said that they had been approached by the SFO for information.

Mr Michael Deeny, chairman of the Gooda Walker Action Group, which is organising legal action on behalf of 2,000 Names, said it "is absolutely scandalous for Lloyd's to try in extract £157m from ruined Names in a case under serious examination by the SFO. This further demand is intolerable".

We were lured on to these syndicates by invented profit figures created by the use of these T&Ds. Lloyd's itself encourages the use if these dangerously misleading financial instruments."

Describing the result as "truly awful", Mr Randall said "we expect the claims and reinsurance recoveries to go and we've tried to match the calls – we've deferred everything we possibly can."

Britain in brief

Oftel plans new phone numbers

It may soon be possible to buy a "phone number for life" along with a service programmed in send telephone calls and faxes to wherever you happen to be during the day, nnder draft plans unveiled yesterday hy Oftel, the telecommunications industry regulator.

Personal numbering is one of the opportunities opened by the 9m new telephone numbers dne to become available in 1995, when the digit "1" will be inserted after the initial zero for all UK area codes.

Oftel's consultation paper covers the 9bn telephone numbers that will be available for allocation after the national code change in April 1995.

Oftel is proposing to open only 3bn numbers for immediate allocation: 02 will prefix existing codes, mobile services will begin with 03, personal numbers with 07 and tariffed services with 08. Apart from the new digit, existing numbers will be unaffected.

Mr Cruickshank emphasised that the numbering changes were in line with practice in the US, Japan and Australia, leaders with the UK in the development of liheral telecommunications regimes.

European peak in optimism

Companies in London are more optimistic ahout their prospects for the next six months than their counterparts in other European capitals according to a survey of nine cities published yesterday by the Confederation of British Industry.

The survey conducted by CBI's London branch and business organisations in other capitals covered about 5000 companies in Athens, Berlin, Brussels, Lisbon, London, Madrid, Paris, Rome and Valetta.

Scottish water sale delayed

The outright privatisation of the Scottish water industry has been rejected by the government, at least until after the next general election.

But ministers remain keen for private capital to be injected into the sector by franchising, competitive tendering for services and possibly allowing management to buy a stake in the industry.

With a policy paper on the future of Scottish water expected within a month, ministers are grappling with how to ensure that as little as possihle of the extensive capital spending the industry requires in the next decade will come from public funds.

Scots Nuclear profits soar

Scottish Nuclear, the state-owned company which operates Scotland's two nuclear power stations and generates nearly half its electricity, nearly quadrupled its pre-tax profits in the last financial year. Scottish Nuclear made pretax profits of £65.8m for the year to March 31 1993 compared with £13.7m in 1992. Turnover increased hy almost 10 per cent from £477m to £523.5m, and output rose 13 per cent to 14.3m terawatt hours.

Tyneside seeks EC ship aid

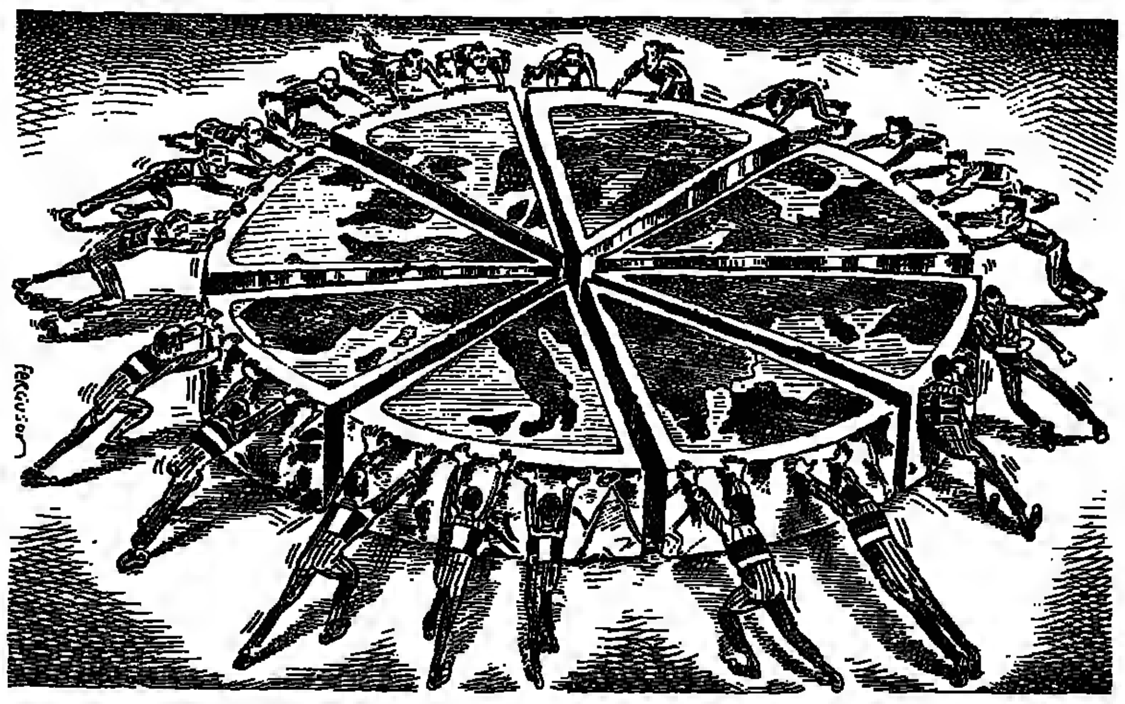
North Tyneside Conncil met European Community competition directorate officials in Brussels to press the case for Swan Hunter to become eligihle for Shiphuilding Intervention Fund subsidy.

The Tyneside shipbuilder, which is in receivership, does not currently qnalify for the nine per cent subsidy for merchant shiphuilding orders because it is classified as a warship yard. Despite this it has since built two non-naval vessels. A report hy Tyneside argued Swans could be redesignated a "mixed" yard, qualifying for SIF, without establishing any precedent.

Baton decision

British police were given the go-ahead today to try out controversial aide-handled hatons. The decision was made by Mr Michael Howard, the new home sacretary. The 24in batons, used in the US, can be reduced to 13ins to give what "a less aggressive appearance".

MANAGEMENT: MARKETING AND ADVERTISING



The US food group is aiming for closer collaboration between its European units, says **Guy de Jonquières**

Cross-border Kraftsmen

Soon after Todd Martin became vice-president of marketing and business development at Kraft General Foods Europe 18 months ago, he made a radical decision. He gave his job away.

That is how he describes the thinking behind a recent shake-up of marketing strategy at the large, US-owned food group, intended to tackle one of the toughest dilemmas facing consumer products manufacturers operating in several European countries.

The challenge is to find a management structure which maximises scale economies and eliminates wasteful duplication, while remaining sensitive to often very different patterns of local demand.

Prompted by the singla market, tougher competition and the growing power of retailers, other companies including Unilever and Mars have recently extensively re-organised thair operations in an effort to meet these objectives.

Howaver, in several cases, the search for strategic coherence has led to unwieldy centralisation or blurred responsibilities, leaving national managers confused and demoralised.

Martin was determined to avoid these mistakes. Instead, he set nnt to make the group's eight European operating subsidiaries responsible for initiating and implamenting cross-border collaboration.

His approach was coloured hy Kraft's failed attempts a decade ago to impose uniform product and marketing strategies across Europe. The results were so catastrophic and created such ill will that the central marketing team was disbanded soon afterwards.

The loose system of headquarters co-ordination which replaced it mollified KGFE's national managers, hut discouraged direct communication between them. Each pursued its own marketing strategies, even for big international brands such as Philadelphia cream cheese and Kraft dressings.

By the time Martin, a 37-year-old American, arrived, national managers had begun to chafe at this compartmentalised structure. They needed little persuasion, he says, to see the advantages of closer cross-border collaboration.

A year ago, he set up eight "core teams", covering KGFE's principal product categories and the main marketing functions. The teams, which meet for two days, three times a year, bring together more than 100 KGFE national marketing staff.

Each team has a co-ordinator, assigned to KGFE's Munich headquarters for two to three years from a country unit, who identifies issues of common concern, prepares research and case studies and guides debate. However, what to do and how to do it are left to national managers to decide jointly.

"I had to look to self-interest to drive this process because I can't be everywhere at once making sure it works," says Martin, who stays away from team meetings so that managers can discuss mistakes and failures without fear of reproach.

The biggest financial pay-off so far is from agreements to rationalise the specifications and packaging of the 1,000 KGFE product lines sold in more than one country, which account for 40 per cent of the group's $3.6bn (£2.3bn) annual sales. Some come in more than 50 versions, often because of unco-ordinated decisions by country managers rather than real differences in local demand.

KGFE expects decisions already taken to reduce by $10m in the next two years the $100m in manufacturing fixed costs needed to support this product complexity. Martin thinks savings of as much again are achieveable.

Another priority has been to improve effectiveness of brand management and advertising. The main goal here is not to cut costs, but to get maximum mileage from the $400m KGFE spends annually on advertising and marketing.

Relying heavily on comparisons of national subsidiaries' past experience and detailed analyses of failures as well as successes, the core teams have begun to define general principles for effective marketing.

One is that food products are often better promoted by focusing on questions such as when, how and by whom they are eaten, rather than by concentrating on intrinsic qualities such as texture and taste, as some national units have done in the past.

The objective is a broadly consistent strategy across Europe which can be tailored to individual markets. It is already being practised in television commercials for Philadelphia cream cheese, one of KGFE's main product lines.

In the commercials, a housewife shows a visitor various ways of serving Philadelphia. In Italy, where the aim was to differentiate the product from the many other soft cheeses on the market, an exotic touch has been injected by casting the visitor as a Japanese au pair. But in Spain, a hard-cheese eating country where Philadelphia is unfamiliar, KGFE played safe by making the visitor a neighbour's daughter.

For a new range of do-it-yourself pizza and pasta dinners, sold under the Miracoli brand, KGFE uses identical commercials in five countries. These show an Italian family enthusing at mealtime, in Italian, over the toppings and sauces available.

Ironically, the range is not sold in Italy, where its potential is considered very limited. However, as Martin observes, the Miracoli brand stands "not for Italian food, but for the idea of Italian food".

Unlike previous KGFE campaigns, the Miracoli commercials were neither developed by each country separately, nor imposed from the centre. Instead, core team members adopted a campaign thought up by KGF Belgium after judging it superior to alternatives developed by their own and other subsidiaries. The Miracoli dinners are also an early result of efforts to develop more products jointly. Since the new system began, the list of research and development proposals from national subsidiaries has halved, and many more are for products to be sold in several countries.

"In the past, there were almost no multi-country projects – and if there were, it was pure coincidence," says Phil Smith, marketing director of KGF's UK operation. "The core teams have got marketing people to focus on big new ideas and meaty projects, rather than on easy window-dressing like minor line extensions."

A drawback is that the new system is relatively slow to respond to demands from KGF's US headquarters and Philip Morris, its ultimate parent. "If Michael Miles [chairman of Philip Morris] asks if we can do something in a month, I have to say it will take six months," says Martin.

However, KGFE is also hetter equipped to formulate its strategies and initiate ideas without transatlantic prompting. Piero Capizzi, director of refrigerated products, says he spends only 30 per cent of his time liaising with the US, compared with 70 per cent for his predecessor.

Martin thinks there are two main reasons for the smooth working of the core teams system, which Jacobs Suchard, the Swiss coffee and confectionery company owned by Philip Morris, is also thinking of adopting.

One is that many traditional cross-border management links were severed by the reorganisation which followad Philip Morris's acquisitions of General Foods in 1985 and Kraft in 1988. That made it easier to introduce a new approach from scratch.

The other is that KGFE has solidly established core businesses with broadly similar strengths in different markets. That means subsidiaries from smaller countries do not worry about being pushed around by those from bigger ones. "Getting the balance right requires democracy," says Martin.

He is open-minded about how the system will develop, saying national subsidiaries may sometimes find it makes more sense to act separately than jointly. But at least they will have considered the possibility of cross-border co-operation first. "If there are synergies to be had at a European level, we'll capture them," says Martin. "If we can't, they don't exist."

Fresh chapter for retailers

Martin Rosenbaum reports on WH Smith's schools initiative

If schools are short of books, computers and other eqnipment, it is a problem for pupils and teachers. But it is also an opportunity for companies that want to enhance their corporate image and sell products at the same time. This opportunity is being increasingly exploited.

Several leading retailers are nnw implementing prnmtinns where schools will get the benefit from the incentive to purchase. This week WH Smith launched its "Free books for schools" initiative, the company's largest promotion. Until 10 September customers will receive a voncher worth 10p for each £2 they spend. Primary schools can collect these vonchers and redeem them via WH Smith for a maximum of £500 worth of books.

Following Tesco's highly snccessful "Compnters for schools" scheme, WH Smith's approach reflects the rapid development of "cause-related" or "social" marketing in the UK.

One in four primary schools has already registered for the scheme, put together by sales promotion agency LGM. WH Smith expects to distribute up to £5m worth of books. If so, the promotion will have to drum up a lot of extra husiness to be worthwhile. "We are confident it will work," says Julia Nolan, marketing services manager at WH Smith. "It's nice to be able to do something which meets our commercial objectives and gives benefit to the community."

Next month WH Smith's rival John Menzies will launch a parallel programme. Vonchers will again be given on a £2 spend, althongh only on purchases nf books or stationery. However, the Menzies scheme will also allow secondary schools to collect and redeem vouchers.

In the autumn another books-for-schools plan will be launched by Boots, based on a £5 spend.

This rush of copycat schemes has been inspired by the Tesco initiative, in which schools could redeem vouchers for Acorn computers and software. The supermarket chain is now employing this idea for a second year. Last year 8,000 schools received £3m worth of equipment. And according to Tesco even more schools are involved this year. Distribution nf vouchers has ceased, but schools have until early July to send them in.

"Many people thought the Tesco scheme was a good idea, combining customer loyalty and commnnity benefit, so we are now getting lots of 'me-toos'," says Susan Short, secretary general nf the Institute of Sales Promotinn. The institute provides a copy clearance service and she adds: "This time last year we had no such schemes. In the past three mnnths we've had six or seven proposed. Most come from retailers, hnt there is also a major, fast-moving cousumer goods manufacturer of leadiug hrands."

The attractions of such programmes are clear. They are loyalty schemes which aid a good cause. Tesco describes them as incentive promotinns driven hy community rather than personal needs. They hoost sales while creating a valuable association and generating good publicity.

This is part of a treod in which corpnrate do-gooding is mnre closely tied to husiness objectives. Andrew Wilson of Ashridge Management Centre, who has been investigating the motivatinn behind companies' commnoity involvement, says: "Our research shows that most large companies are moving away from old-style philanthropy, and are looking for a husiness-related pay-off. They are trying to be more cost-effective and professional in their community involvement."

Bnt will returns diminish as snch promotions become more widespread? Tesco, which is cagey abont publicly qnantifying the pay-back, recognises it will have to improve its scheme if it is to retain its reputation as a leader in this field.

Short thinks others will respond with wider diversification: "The idea may well be taken further into other areas of social needs such as health or community care."

TECHNOLOGY

After years of delay, Australia's high-technology city is suddenly moving forward, reports **Kevin Brown**

Focusing in on the future

Six years after it was proposed by the Japanese government, a moribund Australian plan to build a high-technology "city of the future" in Adelaide is showing signs of returning to life.

The project, inelegantly named the Multi Function Polis, has been stalled by political instability since it was approved by the federal and South Australian state governments in 1991. The delay prompted speculation that the MFP was being allowed to die – a view that gained ground with the retirement in March of John Button, the former federal industry minister, who was a strong supporter of the project.

But a sudden flurry of activity by the MFP Development Corporation, set up by the state government to run the project, suggests a scaled-down version of the MFP will go ahead. Most significantly, the corporation's board, appointed only last October, recently appointed its first chief executive, ending a six-month search for someone capable of reviving the project.

It will not be an easy task. The MFP concept has been shrouded in confusion since it was floated in a 1987 speech by Hajime Tamura, then Japan's minister of international trade and industry. A joint Australian/Japanese feasibility study which followed Tamura's speech prompted concern by referring airily to the MFP as "a bio-sphere" and a place for "renaissance living" without putting any flesh on the vision.

Australian unease increased when a second report produced for the federal government concluded that the project would only be viable with a population of 200,000, of whom 80 per cent would have to be foreigners. There has also been confusion about the cost of the project,

There is now no sign of the science fiction jargon which dogged the early days of the high-tech plan

which has been variously estimated at A$6bn (£2.6bn) and A$13bn. The corporation now says only that the first of 10 phases will cost A$150m.

Paradoxically, the delay in getting the MFP off the ground may have saved the project by giving the development corporation time to refine the elements that were unlikely to work or politically unacceptable. There is now no sign of the science fiction jargon which dogged the MFP's early days, although officials continue to brush aside criticism of its clumsy name. But there are more substantial refinements, too:

● The proposed population has been reduced to about 50,000 people, equivalent to less than 5 per cent of Adelaide's population. Most of the newcomers would be Australians.

● Japanese involvement is being played down, although officials deny that this is a response to criticism. The international advisory board comprises three Australians, two Japanese, two Koreans, a Taiwanese, an American and four Europeans.

● Grandiose proposals for a fee-paying "world university" have been abandoned, and a proposed "information utility" joint venture with the private sector will now be a public-sector project.

● Complex plans to make the project a joint venture with the private sector have been dropped, at least for the first phase. Instead, the development corporation is seeking direct government funding.

The revised plan envisages the development over about 30 years of a series of "villages" on four sites centred on 1,840 hectares of wasteland at Gillman, a low-lying area about 20 minutes' drive from central Adelaide. The villages would include about 1,000 hectares of waterways and 800 hectares of parklands and forests, creating a pleasant urban landscape not dissimilar to some existing Adelaide suburbs.

There is little doubt that the swampy Gillman area could be successfully developed – similar land elsewhere in the city has already been developed privately into an upmarket housing estate. The state government also controls most of the potential residential land in and around Adelaide, enabling it to underwrite the value of housing on the site by delaying the release of land elsewhere.

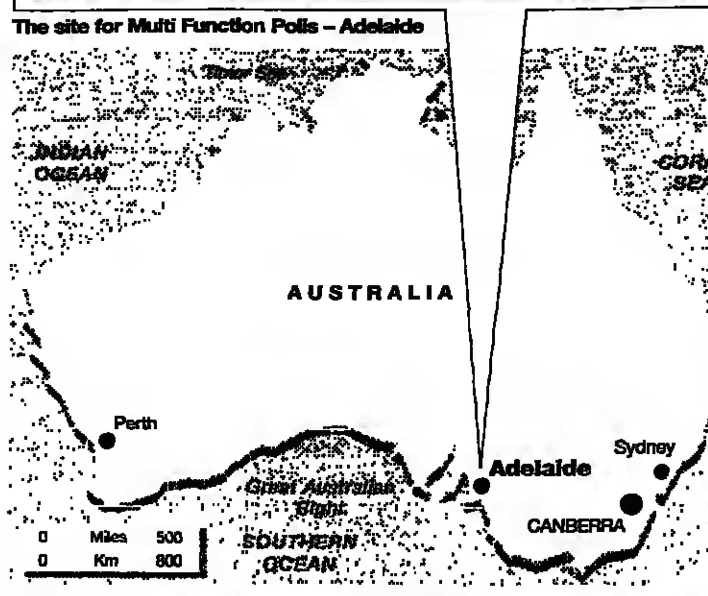
But if it is to succeed, the MFP will have to be much more than an upmarket housing estate. Specifically, it is designed to help Australia develop expertise in four key areas:

● Innovative urban development. The sites would be 50 per cent more energy efficient than the South Australian average, and would feature dual water and sewerage systems, allowing recycling of water for non-drinking uses. A services company set up by the development corporation and a number of private companies would develop energy saving and waste recycling technology and expertise for commercial sale.

The services company is considering a host of ideas, including the commercial use of sewage sludge for brick making and fertiliser and generating electrical power from waste disposal.

● Information technology. All buildings would be linked by broadband fibre optic cable, allowing a large-scale experiment in the use of interactive and intelligent communications devices. If the federal government and other state governments agree, the MFP would co-ordinate national tele-medicine activities (in which diagnosis and even surgery can be controlled over large distances using videoconferencing facilities.)

The project would include a media studies centre on the Gold Coast of Queensland, providing advanced facilities for film and television post-production work. The MFP planners also hope to build on Australia's high reputation for innovative computer software. One promising area is the conversion of western software to Asian languages and conventions.



● Education. In place of the abandoned plan for a world university, the MFP is now promoting a joint venture with South Australia's three universities to establish a fee-paying Asian business school to expand Australia's existing role as a source of education facilities for emerging Asian economies. The project also plans to develop Australia's expertise in distance learning techniques, including an expansion of s fibre optic video conferencing system already being used to deliver technical further education to remote communities.

● Environment. Building on the polluted and swampy Gillman site would provide valuable environmental management skills, which are increasingly in demand around the world. Other ideas include using recycled water to replenish underground reservoirs (aquifers), which are being depleted by over-use. Some researchers even speculate thet the sandy aquifers could be used to treat raw sewage.

Despite the simplifications, MFP officials still have difficulty in explaining the project concisely – Rod Keller, the acting chief executive, took 15 minutes to deliver a "one sentence" explanation of its objectives. But Keller says the project will gain credibility over the next few months as earthmoving work starts on the Gillman site and final decisions are made on the availability of government funding.

Keller admits that less than A$300,000 has so far been committed to the project by its overseas corporate supporters, which include some of the biggest companies in Japan and South Korea. But he claims most criticism of Japanese involvement in the project is racist, and insists that the 84 Japanese corporate supporters will begin to invest as soon as Australia shows its commitment to the MFP.

"My father was killed by Japanese bombing in Darwin [during the second world war], so I have as much reason as anyone to be suspicious of the Japanese," Keller says. "But if we can't get past that and recognise that we need investment from Japan, South Korea and other foreign countries then we all ought to put our heads in the sand."

Robin Marrett, chairman of the state's Economic Development Authority, says the project dovetails neatly with South Australia's need to develop technology-based industries to replace manufacturing, which has been hit by reductions in protective tariffs.

Marrett says the project will make "real strides forward" in the next 12 months. But he concedes that the project may yet face problems. "Right now the MFP is at a crossroads. There has been a lot of talk about it, but the talk has been mainly in conceptual terms.

A little camera with big ideas

Richard Wilson reports on the latest smart vision system

Motorists around the world may soon no longer be blinded by headlight glare in their rear-view mirrors thanks to a microchip camera and image processing system invented by a Scottish start-up company.

That is only the first commercial application of what has the potential to be world-beating semiconductor technology developed by a group of scientists at Edinburgh University three years ago.

Last month, VLSI Vision Ltd (VVL), the company set up to develop this technology, introduced the world's first image-processing system on a single microchip.

Donnelly, the big Massachusetts-based manufacturer of rear-view mirrors, has snapped up the combined camera and computer on a chip, known as the imputer, to control a new self-adjusting anti-glare mirror. Using electro-chromic technology, the mirror's surface (containing the imputer) darkens to cope with outside glare. The deal is a valuable one for VVL, one of a new generation of small design houses which have limited resources but must survive on the uniqueness of their ideas.

"Without VVL, Donnelly would not have thought about putting a camera into a rear-view mirror," says Stewart Smith, VVL's marketing manager. Peter Denyer, the Edinburgh University professor who invented the technology and is now managing director of VVL, believes it can grow into a £20m company within five years. "I have learnt to speak cautiously," said Denyer, "but that's possible if one of our products takes off and I believe any of them is capable of it."

Denyer and his team have created a smart vision system which can be made small enough and cheaply enough to introduce image-processing technology into new applications from production-line monitoring to supermarket checkout scanners. "Nowhere in the world can you find a camera at such a size and price. It will be unique for a while," says Denyer.

Japanese companies such as Sony lead the world in miniature optical sensors called charge coupled devices (CCDs) which are used in camcorders. US companies specialise in fast microprocessors which can turn optical data into usable information. VVL, which has £2m of development capital, combined the CCD sensor with a microprocessor which can process digital picture information at 1bn bits per second on a single integrated circuit costing less than $10 (£6.40). But the first production order from Donnelly, the world's largest company in its sector, is likely to be priced at less than $5 per circuit.

Denyer and his team have none of the financial resources usually thought necessary in the semiconductor industry. The VVL microchip is made in France by custom chip-maker ES2. Their asset is the ability to innovate in semiconductor chip design and software development.

To help find commercial applications for the imputer – such as inspection, traffic control, navigation, and robotics – VVL has produced a development system, with special software, costing £500. It can be used as an image processor in its own right, but Denyer says its real aim is to enable customers to develop applications.

Once the application is found, VVL will compress the system into an integrated circuit the size of a postage stamp. Denyer believes this will give VVL a technological edge over Japan and the US.

VVL is typical of the small, high-tech start-up companies scattered across California which have done so much to give the US its world lead in computer, semiconductor and software design.

It has long been suggested that the reluctance of British investors to back new technology companies has stifled the start-up culture in the UK. Denyer believes this is a myth. He had no trouble in raising the necessary capital from private investors.

He believes inventing something is not enough for university scientists if they want a successful product. The ideas must have a commercial application.

PEOPLE

Lambeth vacuum filled

ONE OF the least sought-after vacancies in local government has just been filled. Henry Gilby is to take over as chief executive of Lambeth borough council in south London.

The post was most recently vacated by Herman Ouseley, who left to take up the chair of the Commission for Racial Equality.

His parting shot was a damning report alleging maladministration, fraud and inefficiency costing £9.5m.

That was followed last month by an even more damning public interest report by the district auditor, which found that more than £20.2m had been spent illegally.

One of the report's most pressing recommendations was that a new chief executive from ootside the council should be appointed to serve for a long term. However, Gilby, 50, already has 16 years' experience at Lambeth, having worked his way up from senior assistant director of the amenity services department to become director of environmental services. Before that he had worked weith four different borough councils and also for Essex county council.

Like every other development in Lambeth's labyrinthine politics, the appointment has been botly contested, with all non-Labour councillors voting against it.

Liberal Democrat councillors complained that the appointment was originally advertised for only six months and that many applicants were bence deterred. They also claim that tha total cost of Gilbey's appointment would be more than £300,000, because of the offer of 10 years superannuation at the end of his contract. They also argue that external candidates should have been considered.

But Gilby has made plain his determination to ctean up Lambeth. He contributed to r Ouseley's Section Five report and says: "In my view, significant changes are required immediatiely to put this council on a sound footing."

China clay chief of the Americas

DENNIS REDIKER has been appointed president and chief executive officer of the American operations ECC International part of English China Clays, the world's largest producer of ball clay used as fillers and coatings in paper manufacturing.

Rediker, 49, will be responsible for the group's north and south American operations which have grown substantially following the acquisition of Georgia Kaolin in 1990.

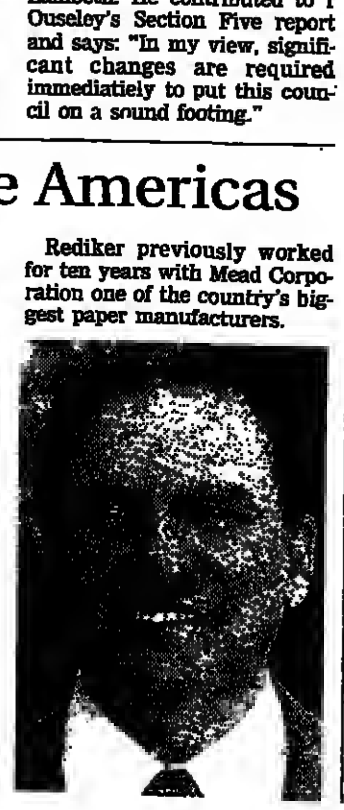
He will ret directly to Graham Lovering who remains managing director of ECC International's world wide industrial minerals business.

English China Clays has reorganised since Andrew Teare, previously managing director of the Rugby cement group, was appointed chief executive in 1990. As part of its plan to concentrate on the industrial minerals business the group last week announced a £113.4m rights issue, a £202.3m US acquisition and plans to hive off its UK and US *building materials business* into a separate company.

English China, which had previously announced it was pulling out of UK housebuilding, said it was acquiring Calgon, the US speciality chemicals business, for $307.5m from Merck the US drugs group.

Teare argues that Calgon, will comptement ECC'sindustrial minerals business which has becoms increasingly sophisticated in the use and development of speciality chemicals for paper-making and other processes.

Rediker previously worked for ten years with Mead Corporation one of the country's biggest paper manufacturers.



Departures

■ *Keith Loney*, deputy chief executive of the ASSOCIATION OF BRITISH INSURERS, is to retire at the end of June.

■ Barry Jenkins, md of MGM's UK cinema business, has resigned to pursue other interests.

■ Robert Walther has resigned from CMI MANAGED PORTFOLIO INVESTMENT COMPANY.

■ Michael Foot, formerly md of Pronuptia-Youngs, has resigned from CUPID.

■ David Roe, md of LIBERTY MUTUAL INSURANCE Co (UK) has resigned.

■ Raymond Parsons has resigned as a director of BOWTHORPE but continues as life president of the company.

■ Craig Pearman has resigned as a director of YORKSHIRE-TYNE TEES TELEVISION HOLDINGS.

■ Charles Keller has retired from the board of HOGG GROUP.

■ John Ansdell has resigned as a director of JOHN BROWN.

■ Durk Pruick has resigned as md of BODYCOTE INTERNATIONAL.

■ Hugh Thomas has resigned as a director of DALGETY.

■ Charles Bateman has ceased to be a director of AMEC.

■ Dsvid Hanton, group company secretary of ROTORK, has retired.

■ David Fitzsimons has resigned as a director of GESTETNER HOLDINGS.

■ William Reid has retired from the board of JOHN MOWLEM.

Cinema/Nigel Andrews

Narcissistic trip through hell

Cyril Collard screenwrote *Les Nuits Fauves*, the *succès de scandale* of the French film year, from his own quasi-autobiographical gay novel. He also directed it and took the starring role of the HIV-positive young (anti)hero. As a grim rounding-off of this one-man show, and its sense of consuming identification between artist and project, Collard himself died of Aids shortly after the film's release.

Life and art, let alone death and art, make bewildering bedfellows. When I first saw *Les Nuits Fauves* at the Berlin Film Festival I thought it – and still do despite the special pleading of real-life tragedy – an exercise in manic narcissism. Here is our handsome, fast-living hero Jean (Collard), a photographer-musician swinging sexually between a teenage girl (Romane Bohringer) and a handsome, thuggish sports player (Carlos Lopez). And here is a Paris vast, kinetic and unruly, as seen by a hand-held camera trying to shake us into empathy with the movie's seismic romantic nihilism.

Les Nuits Fauves is an ego trip through a self-willed hell. Doomed to an early death, a young man pursues his last long delirium of pleasure and existential danger (to others as much as himself, since he conceals his HIV status): until after two hours of up-yours bravura, the film's last scene ushers in the deathbed repentance. Collard gazes out at a sunset, and as the surreally speeded orb fizzes below the skyline and then up again we hear his voice-over: "I may die of Aids. But it's no longer my life. I am *in* life."

This climactic flood of pantheistic awe is meant to cleanse away two hours of tunnel-vision self-gratification. But nothing, ultimately, can disguise the fact that *Les Nuits Fauves* is a serenade to solipsism disguised as a story about relationships. The girl's character description could have been scribbled on a cigarette packet: moppet turns into Medea on discovering she may have caught Aids. (She spends the film's second half burning up the telephone line with sulphurous insults.) And the sportsman remains an unsolved enigma throughout. Do we see latent guilt in his none-too-latent homophobia, as when he viciously beats up a gay man during an initially mild S-&-M session? Or do we see mere brute stupidity? Or do we see . . .?

We see what we want. There *are* no real characters save Jean in this movie. The people he ranges around himself are neutrons hired to bombard him until dramatic fission is achieved. And though the film sometimes feints at *foregrounding* the subject of Collard/Jean's egotistic failure of emotional reach – "You're incapable of loving!" screams the girl – that failure becomes the failure of the movie. It rants and raves; it careers about the land with its hero's video-camera. But the one journey it never makes is into the skin of other characters.

The missing dimension of humanity is finally, perversely supplied by the film-maker's own death. Real-life events cannot help affecting our emotional response to art, even if they fail to budge us from our critical verdict. That Collard shared his own hero's anticipated end does not make *Les Nuits Fauves* a better film, but it gives it a belated, eerie poignancy. A crusade for egomania that seems cruel as fiction becomes almost quixotic as half-fact: a pageant of hubris enacted by an artist who knew that his nemesis was already waiting.

★

The rest of the movie week says hello to the silly season. Blithest silliness – it comments on movie folly rather than perpetrating it – is Joe Dante's *Matinee*. In the tradition of Dante's *Gremlins* or *Explorers* this pours parody, social comment and grand guignol into its aesthetic cocktail-mixer; then gives it a shake and waits for it to froth over.

LES NUITS FAUVES (18)
Cyril Collard

MATINEE (PG)
Joe Dante

THE TRIAL (12)
David Jones

BOXING HELENA (18)
Jennifer Chambers Lynch

FIRE IN THE SKY (15)
Robert Liebermann

To a Key West, Florida, already gripped by real-life historical panic – the Cuban Missile Crisis, 1962 – comes movie horror merchant Lawrence Woolsey (John Goodman). Mission: to cash in on the anxiety climate by opening his latest shoestring screamer "*Mant*." ("Half man, half ant, all terror!" proclaims the poster). Woolsey's greatest fan is youngster Gene (Simon Fenton), taking his mind off Dad's absence on a blockade ship by helping the shlock-mogul set out his stall of gimmicks. These include: seats wired to shock the audience, man in ant's head roaming cinema, and "joke" nuclear explosion to round things off.

Woolsey is based on that great gimmick-master William Castle: a man who released everything into the audience from skeletons to electric shocks to increase appreciation of films like *The Tingler* or *Horror Of Haunted Hill*. (There are also be touches of Dante's own mentor, Roger "Buckets Of Blood" Corman).

But guessing games can wait till after the film. This slides its merry way from real-life near-apocalypse – Key West was only 90 miles from the epicentre of what many thought might be World War Three – to the sublimations of movie fantasy, via a typical Dante's inferno of gags, ghoulishness and period grace-notes.

Boxing Helena, by debut writer-director Jennifer Lynch (David's 24-year-old daughter), and *The Trial*, directed by David Jones from Harold Pinter's Kafka-based script, were surely mixed up at birth? Why else is Mr Lynch's favourite actor Kyle McLachlan – the chinful wonder of *Twin Peaks* – not starring in Miss Lynch's movie as the surgeon hero who cuts off the arms and legs of his beloved (Sherilyn Fenn) the better to adore her?

Instead Britain's Julian Sands signs on up as the nutty American sawbones; while at the other end of the Western hemisphere McLachlan struggles with an English accent as the German-Czech hero of Kafka's paranoid classic.

Why is McLachlan's Joseph K English-brogued? Because this is a Great European Classic co-produced by the BBC. In period-accoutred Prague – crumbly streets, onion domes and only one renegade TV aerial in sight – the likes of Juliet Stevenson, Alfred Molina and Sir Anthony Hopkins purl forth the Pinter-precise prose. And Mr McLachlan flat-rackets back the arias of bewildered indignation.

The cinema has now given us two movies of *The Trial* made at opposite ends of the disaster spectrum. Where Welles's 1963 effort was OTT-baroque, this one is visionless, lifeless and dreamless. It turns the work of a great Middle European fabulist into middlebrow culture fodder. Every Kafka frisson is flattened by declamatory literalism; every dark Kafka joke is trapped in the headlights of the film's stagy overemphasis.

Boxing Helena is another potentially startling idea boxed into banality by the mise-en-scene. Boy loves girl; boy quadruply amputates girl; boy lives happily ever after (almost).

Tsk! tsk! what will the feminists say? Like most people, they may too underwhelmed to care. The grand guignol all happens off-screen, leaving tha film as tame as a tea party. And with the possible exception of Ms Kim Basinger, who lost $9m for breaking her alleged pledge to star in this limbless wonder, everyona connected with it seems tuned into another channel. Sands camps and hisses as if doing his "Be a mad genius" exercises for Ken Russell. Miss Fenn is inexpressive with or without anatomical extensions. And Giacomo Puccini delivers a stream of great arias on the soundtrack, though "Nessun dorma" hardly describes the state of consciousness prevailing at the Press show.

There is always Outer Space. *Fire In The Sky* is based on the "true" story of Arizona logger Travis Walton (D.B. Sweeney) who was snatched into the sky by an alien spaceship. Days later, after what seems to have been a short but nasty interstellar medical examination, he was re-deposited naked on Earth. Sheriff James Garner initiates the enquiry as the film gradually establishes that yes, something strange may have happened; and yes, people could be fooled into believing it given enough loud music (Mark Isham) and splashy special effects (Industrial Light And Magic of *Star Wars* and *ET*).

Scene from 'Lysistrata', directed by Peter Hall at the Old Vic

Theatre/Malcolm Rutherford

A 'Spitting Image' Lysistrata

It would be almost impossible to mount a production of *Lysistrata* more shocking than the original. The eroticism, the blue jokes and, above all, the satire are there in profusion in the Aristophanes text of 412 BC when – to put it mildly – the war with Sparta was going badly.

Sir Peter Hall has achieved the impossible in another way. His production is not shocking, not funny, not erotic, not topical and consequently has lost the satire. If it were put on in Bosnia, it would have about as much effect on the warring factions as a newspaper editorial urging mutual restraint.

Hall's direction at the Old Vic has the television programme "Spitting Image" written all over it. The men are old buffers; the women, far from looking remotely like Helen of Troy or her ilk, resemble pantomime dames.

This is the original "Spitting Image" mistake. If you make the targets look over-grotesque, more like puppets than people, you diminish the force of the satire because it is not close enough to reality. In Hall's *Lysistrata*, the error is compounded. The essence of Aristophanes's play is the force of sexual attraction. Only by withdrawing their favours do the women compel the men to make peace. Even then Lysistrata has a hard enough time keeping the rest of the women in line because the females are just as libidinous as the males.

It would be good, indeed one expected, to see some of this sexual longing at least hinted at on stage. Yet if you make the women look like harridans and the men like left-overs from the Crimean War, you have negated the point of the play. No-one could care a fig about this lot. Hall is not acknowledging the power of sex; he is knocking it. I also object to the extraneous use of four letter words; in *Lysistrata* there is plenty of room to use them literally.

An accompanying blunder, though it is part of the same pattern, is that the characters wear masks. There is no reason why this should be so, but I suppose that if you give the women giant artificial busts, you might as well conceal their facial beauty as well.

The other fundamental error is Ranjit Bolt's verse translation. I admired Bolt's early work: for example, his translations of the Corneille comedies. The trouble is that his style has become excruciatingly repetitive. Again there is no necessity for a modern English version of *Lysistrata* to be in verse at all. It would go down perfectly well in prose. What Bolt offers is a string of couplets like: "I'll be the lousiest lay he ever had/ He won't have dreamed that sex could be so bad." One knows that Aristophanes is ribald; the effect is spoiled when the words descend into drivel.

There is a further lost opportunity in the set. The background world is covered with slogans. It must have been possible to devise a few wittier wilier graffiti than "We hate all Spartans" and "Your country needs you." There is very little sense, apart from a burst of machine gun fire at the end and a few helmets, that a war is going on, lovely or otherwise. Joan Littlewood would have been acutely embarrassed.

All that is a great pity, for Lysistrata is played by Geraldine James who should have ideal for the role. She struggles manfully against the obstacles. There are a couple of good songs, one where Ms James goes into splendid cabaret-style and leads the women's chorus in "I made you give up sex to save the nation." The other is the men's chorus with "I've got to find a pimp/Before this thing goes limp." I know the words are weak, but it sounds all right and there is some nice saxophone.

The performance runs for 90 minutes without an interval. The ending especially is intolerably slow, for once Lysistrata has made her point there is nothing left to happen, not even the joy of sex.

■ Old Vic Theatre. (071) 928 7616

American theatre is getting a good showing on the London fringe at present, and deservedly so. At the New Grove, a relatively new pub theatre in the Euston Road, there is a revival of Sam Shepard's *The Tooth of Crime*, which was first performed at the Open Space in 1972.

The piece has its origins in the Rock and Roll, drugs cult of the late 1950s and, like much contemporary American drama, contains more than its share of violence. However, it is the quality of the writing and the variety of the playing that stand out. If the images are those of Hollywood, they adapt very well to the stage.

The outstanding performance in *The Tooth of Crime* is by Guy Oliver-Watts as Hoss, the rock singer who is ultimately overtaken by the new age. There is a touch of *Hamlet* in the play which goes beyond the verbal duelling and is clearly deliberate. Direction is by Richard Kimmel who heads a Boston-based company called Empty Gate. Unfortunately it runs only until Saturday, but a new Sam Shepard, *States of Shock*, is opening at the Salisbury Playhouse in association with the Royal National Theatre Studio later in the month.

■ New Grove (071) 383 0925

London concerts/David Murray

Grieg, Mozart and Szymanowski

Grieg was born 150 years ago last Tuesday, when the Royal Philharmonic devoted a concert to him in the Royal Festival Hall. Not the right place, really: apart from the Piano Concerto there is precious little concert-size Grieg for orchestra.

Beyond the Concerto, to which the pianist Geir Henning Braaten and the conductor Per Dreier gave the unhurried, appreciative attention due to a national monument, this concert represented Grieg's best virtues rather dimly. First we had the dreadfully faded "Homage March", and then the "Norwegian Bridal Procession" – as orchestrated by Delius: a world premiere, this! – which was all right. Next, the young soprano Anne-Margrathe Eikaas appeared in demure national costume for six orchestrated songs. Her voice is true and pretty, though not large, and she delivered every song with the same bright innocence, unsullied by the least nuance.

After the interval we heard an orchestral version of "Bell-ringing", which counts as mildly experimental but is not interesting for any other reason. Finally, the four Symphonic Dances – the adjective is ill-earned – of Grieg's op. 64 proved amiable, lightweight and repetitive: far less ambitious than, say, Dvorak in this undemanding genre. Dreier and the RPO dealt affectionately with them.

■ Sponsored by the Royal Norwegian Embassy and DYNO

On the face of it, the Philharmonia's Festival Hall programme last Friday looked curiously marginal: early, lightweight Mozart, and Szymanowski's grave *Stabat Mater* of 1926. With Claus Peter Flor conducting, it drew a creditable full house nonetheless. No doubt the appearance of the Labèque sisters in Mozart's three-piano concerto K.242, with Bruno-Leonardo Gelber as the third pair of hands, exerted a considerable pull; but Szymanowski – even when as sober as here – wields an appeal that is gaining new credit.

In Mozart, the three pianists were scrupulously charming. Though K. 242 is a piece of scarcely any density at all, they to suggest a many-levelled structure by dint of picking out small inner parts. The concerto sounded deceptively rich and rewarding; the effect would have been greater still, had not the Adagio sounded so laid-back and lax.

Before that, Flor and his quartet of solo voices – Sylvia Greenberg and Linda Finnie, Thomas Randle and Anthony Michaels-Moore – had done light, dancing justice to young Mozart's Missa Brevis in D, K. 194. This little Mass presupposes some unwritten plainchant at the beginnings of successive sections, and a male section of the Philharmonia Chorus undertook that. Cool and chaste, it jostled against Mozart's sprightly Rococo inventions.

The elegiac Szymanowski was more consistent. Flor calibrated its melancholy sounds to a theatrical nicety, and Mss. Greenberg and Finnie duetted with heartbreaking sweetness. It was not quite the right work, however, to close a concert that boasted such lively preliminaries. After the *Stabat Mater* had risen to stern utterance in the middle, the subsidence into familiarly sweet, all-purpose harmonies at the end sounded like a cop-out.

■ Sponsor: National Power

Concert/Andrew Clements

Muldowney tracks a trumpet

Dominic Muldowney's Trumpet Concerto, which John Wallace and the Premiere Ensemble under Mark Wigglesworth introduced on Monday at the Queen Elizabeth Hall, is his sixth concerto and probably his most successful orchestral work to date. It is an attractive, catchy piece, a single movement that plays for just under 20 minutes and effortlessly parades Muldowney's array of skills, with deft orchestration and a teasing patchwork of melodic tags.

The easy accessibility of the score belies its mechanics. As another of Muldowney's explorations of tempo layers, the players and conductor all have to listen to computer-generated click tracks to keep them on their metronomic course. The concerto operates on three carefully geared *tempi* – the solo trumpet and a piano have the fastest pulse, the strings and other wind (the only players controlled by the conductor) the slowest, while widely spaced pairs of clarinets and marimbas take a speed between them.

But the result is much more than a neat piece of clockwork; the music pans easily and smoothly between the groups, adroitly changing perspective. Behind the trumpet the piano functions almost like a continuo instrument, filling in textures, highlighting the solo line.

Muldowney has likened the piece to a latter-day Brandenburg Concerto; the outline is a sonata shape with clearly marked points of development and reprise. The lingering flavour, though, is provided by the melodic material, derived in part from a theatre song which Muldowney wrote a couple of years ago. It dodges in and out of the solo line, is caught from differant angles and in different shades, and provides the trumpet witb some fine opportunities for nimble virtuosity; Wallace played it quite superbly.

The new concerto wss wedged between two Mozart symphonies, the E flat K.543 and the Jupiter K.551. The Premiere Ensemble offer small-band Mozart, played on modern instruments but informed with some of the lessons of authentic practice, including the affectation of observing the second-half repeat in the finale of K.549.

In such music Wigglesworth is a puzzling, unsatisfying conductor, producing bustling, superficially acute playing with cosmetic expresaivo which seems to mask a basic instability of tempo and phrasing; at a particularly awkward moment, it seemed, click tracks might have helped in Mozart too.

INTERNATIONAL ARTS GUIDE

■ BARCELONA

Gran Teatre del Liceu Tonight: Alan Hacker conducts Luc Bondy'a production of Cosi fan tutte, restaged by Lucas Hemleb. Seven further performances bil June 30, with alternating casts including Robert Gambill, Susanne Mentzer and Stafford Dean (412 3532)

● Information and booking for cultural events available through Caixa Catalunya from 08.00 to 14.00 (310 1212)

■ ATHENS

Odeon of Herodes Atticus Tonight, Sat, Sun: Greek National Opera production of Carmen. June 24, 25, 27, 28: English National Ballet. June 26: Marilyn Horne. The Athens Festival continues till mid-September, with performances by Central Ballet of China, Cullberg Ballet, Ballet de l'Opéra de Paris, Moscow State Symphony Orchestra, the Peter Hall Company and others (Athens Festival, 4 Stadiou Street in the arcade. Tel 322 1459)

Megaron Concert Hall Tomorrow, Sat, Sun, Mon: Cyprus Theatre Organisation presents Euripides' Helen (728 2333)

Epidaurus The festival of ancient drama in the 14,000-seat amphitheatre at Epidaurus opens on July 3, with performances of plays by *Euripides, Aristophanes*, Menander and Aeschylus on most weekends throughout the summer. (Athens Festival box office 322 1459)

■ FLORENCE

MAGGIO MUSICALE

Marco Balderi conducts tha Maggio Chorus in music by Sciarrino, Schütz, Castiglioni and Philip Glass tonight at Teatro della Pergola. In the same theatre, Zubin Mehta conducts Julie Taymor'a new production of Die Zauberflöte tomorrow, Sun afternoon, next Wed, Fri and Sun. Mehta conducts orchestral concerts at the Teatro Communale on Sat and next Tues, with soloists Sarah Chang and Yo Yo Ma. Karheinz Stockhausen's family and friends give concerts of his music at Teatro Communale on Mon and Wed, each of which will be followed by an encounter with the composer (277 9236)

■ VERONA

The Arena season runs from July 2 to August 31. The opening production is Cav and Pag, starring Placido Domingo, Ghena Dimitrova, Leo Nucci and Cecilia Gasdia. This year's other operas are Carmen (from July 3), La traviata (July 16) and Aida (July 31). Booking by letter: Ente Lirico Arena di Verona, Piazza Bra 28, 37100 Verona. Booking by telephone or in person: Arcovoli 8-9 dell'Arena tel 45-596517/fax 45-801 3287. Information: tel 45-590109/fax 45-801 1566.

■ LONDON

THEATRE

● The Winter'a Tale: John Nettles plays Leontes and Samanthe Bond his wronged wife Hermione in Adrian Noble's RSC production of Shakespeare's magical late play. Previews from tonight, Press night next Wed (Barbican 071-638 8891)

● The Odyssey: Nobel prize-winning author Derek Walcott has adapted Homer's epic with a Caribbean flavour. Directed by Gregory Doran, with Ron Cook in title role. Now previewing, Press night on Tues (The Pit 071-638 8891)

● Inadmissible Evidence: revival of John Osborne's 1964 play about the life of solicitor Bill Maitland, a blistering portrait of a man struggling to make sense of his life. Directed by Di Trevis in the Lyttelton. Opens tonight (National Theatre 071-928 2252)

● Present Laughter: Tom Conti directs and stars in a Liverpool Playhouse production of the Noel Coward comedy. Now in previews, opens next Wed (Globe 071-494 5067)

● Sunset Boulevard: Andrew Lloyd Webber's long-awaited new musical based on the famous 1940s Billy Wilder film. Directed by Trevor Nunn, this is the year's hottest ticket. Previews June 21-28, opens June 29 (Adelphi 071-344 0055)

● For ticket information about West End shows, phone Theatreline from anywhere in UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962. Most London theatres are closed on Sunday.

OPERA/DANCE

Covent Garden The Royal Opera'a repertory currently includes Attila (with Samuel Ramey, Elizabeth Connell and Giorgio Zancanaro), La boheme (with Deborah Riedel, Karita Mattila and Jerry Hadley), Tosca (with Catherine Malfitano, Luis Lima and Gregory Yurisich) and The Cunning Little Vixen (sung in English, conducted by Bernard Haitink). All next week's performances are Midland Bank Proms, with no seats available in the orchestra stalls (071-240 1066)

Coliseum Next week brings to an end the Jonas-Pountney-Elder regime at ENO. Jonathan Harvey'a new opera The Inquest of Love can be seen tonight and Tues, Macbeth tomorrow and Wed, and Die Zauberflöte on Sat, next Mon and Fri. Mark Elder conducts Verdi'a Requiem next Thurs, and there is a special farewell performance of Macbeth on June 26. Kirov Ballet opens e four-week season on June 29 (071-836 3161)

CONCERTS

South Bank Centre Tonight: James Blair conducts YMSO and London Choral Society in Verdi's Requiem. Tomorrow: Jing Ju Opera Troupe from China. Sun afternoon: Alicia de Larrocha. Sun evening: Mirella Freni singe opera arias with the Philharmonia Orchestra. Mon: first of nine concert performances by Glyndebourne Festival Opera, featuring three operas - Béatrice et Bénédict with Anne Sofie von Otter and Jerry Hadley, Fidelio conducted by Klaus Tennstedt and The Merry Widow with Carol Vaness (071-928 8800)

Barbican Sat and Sun: Pierre Boulez conducts LSO in works by Schoenberg, Bartok and Stravinsky, with piano soloist Daniel Barenboim. Tues: André, Viktoria Mullova and Heinrich Schiff play piano trios by Beethoven and Brahms. Next Thurs and Sat: Jessye Norman sings Schoenberg'a Erwartung (071-638 8891)

■ GENOA

Teatro Carlo Felice Tomorrow, Sun afternoon, next Tues, Fri and Sun afternoon: Gianandrea Gavazzeni conducts Alberto Fassini'a production of Catalani'a Loreley, with Marilyn Zschau, Nicola Martinucci and Denia Gavazzeni Mazzola (589329)

■ MADRID

Der fliegende Holländer opens at Teatro Lirico La Zarzuela on Sun for five performances, with a cast led by Simon Estes and Mechthild Gessendorf, conducted by Antoni Ros Marba (429 8225)

■ SPOLETO

The Festival dei Due Mondi opens on June 29 and runs till July 18. This year's operas are Puccini's Trittico and Stravinsky's The Rake's Progress. Visiting dance groups include Garth Fagan Dance and Ballet of the Deutsche Oper, Berlin. The drama programma includes Oscar Wilde's Salome directed by Steven Berkoff and an Italian-language production of Tennessee Williams' A Streetcar Named Desire (Associaziona Festival dei Dua Mondi, Via Cesare Beccaria 18, 00196 Rome. Tel 6-321 0288/ Fax 6-320 0747)

■ MILAN

Teatro alla Scala Mon: Riccardo Muti conducts revival of the Strehler production of Falstaff, starring Juan Pons, Thomas Hampson and Daniela Dessi (seven performances till July 8). Next Tues, Thurs, Fri, Sat: Nureyev production of Swan Lake (7200 3744)

■ RAVENNA

This year's Ravenna Festival opena on June 26 with a concert by the Orchestra of the Maggio Musicala of Florence, conducted by Zubin Mehta. The programme also includes concerts conducted by Riccardo Muti, Georg Solti, Herbert Blomstedt, Pierre Boulez and Gianandrea Gavazzeni. Luciano Pavarotti is due to give the closing concert on July 21 (Ravenna Festival, Via Gordini 27, 48100 Ravenna. Tel 544-32577/Fax 544-36303)

■ TURIN

Teatro Regio Tonight, Sun, next Tues, Wed, Fri, Sat, Sun: Bruno Campanella conducts Pier'Alli's production of Lucia di Lammermoor, with Alessandrina Pendatchanska/ Giusy Devinu in title role, and Gregory Kunde/Aldo Bertolo as Edgardo (8815 214)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Timea Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channal: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Timas Reports 0930
Sky Newa: West of Moscow 1130; 2230
Sunday Super Channal: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky Naws: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Not exactly Elm Street

BOOK REVIEW

NIGHTMARE ON WALL STREET – Salomon Brothers and the Corruption of the Marketplace
By Martin Mayer
Simon & Schuster, $23. 256 pages

Like many recent books about Wall Street, Martin Mayer's account of the scandal that nearly felled Salomon Brothers in 1991 tries to turn a tale of financial abuse in high places into a metaphor for a decade.

The story at the heart of Nightmare on Wall Street is relatively simple. Mayer describes how Paul Mozer, a trader at the powerful US bond house, Salomon Brothers, faked hundreds of millions of dollars in customer bids for US government securities.

The trader's bosses, believing Salomon was so powerful it did not have to answer to officialdom, did nothing when informed. Mayer also tells how government agencies supervising the market operated a poorly regulated system open to manipulation.

It is an engrossing tale, well told. But Mayer weakens its impact by using it as a stick with which to beat the 1980s, and those on Wall Street who prospered during that much-maligned decade.

The book should, thus, be approached with care. The dust jacket, for example, refers to "masters of the universe" and their "trophy wives and extravagant personal indulgences", and to a system "run amok" with young, ruthless traders. Though Mayer cannot bear responsibility for such clichés, he does for passages at the end of the book. He writes: "Very few of those involved in [the securities] industry in the 1980s . . . contributed to the economy or to their society anything like what they were paid." How does Mayer know? How do you measure anyone's contribution to an entire economy, or to society? Employees are rewarded for contributing to a company, not to an economy or society.

He adds: "The misallocation of America's resources from the malfunctioning of our financial markets in the 1980s slowed the growth of the nation's productivity and diminished its economic prospects."

There were some spectacular malfunctions in the US in the 1980s (the savings and loan crisis and the 1987 stock market crash among them), but to suggest that an entire decade of work on Wall Street – work that fuelled one of the strongest periods of economic expansion in US history – retarded the country's growth is an exaggeration.

Although Mayer ends with an attack on the 1980s, the bulk of the book is a history of Salomon, and its role in the US financial markets. He is a more than capable guide for the firm's journey from the earliest days of the three brothers – Arthur, Percy and Herbert – to the gung-ho trading heroics of the 1980s under John Gutfreund, the once all-conquering chairman whose downfall was precipitated by the 1991 scandal.

The most compelling section reveals how the management of Salomon deteriorated under Gutfreund, a master salesman and trader but a hopeless manager. Mayer tells how key issues at Salomon – from capital allocation to employee compensation – were left to be decided by the whim of senior executives or by cut-throat competition between department heads.

At times, Mayer's account is confusing. He argues that it stretches credulity to swallow the official Salomon version of the story – that Paul Mozer was acting alone – yet he paints a convincing portrait of Mozer as a solitary, highly competitive trader eager to gain revenge on the US Treasury for its restrictions on his bidding activities.

Nightmare on Wall Street is a worrying tale of how one firm (or one trader, depending upon which version you believe) can so easily abuse its dominant position in a market.

A source of greater worry is Mayer's contention that nothing decisive has been done by the government to improve surveillance of the world's biggest market in light of the Salomon scandal.

Patrick Harverson

The case for an independent *but accountable* Bank of England is *mainly* that it could make it easier to lock in a low rate of inflation. This is more than it seems because the pain of recent recessions has been aggravated by the need to reduce inflation after it has already taken off. But even the retiring UK governor, Robin Leigh-Pemberton, oversold the case when he attributed the upward drift of unemployment over three business cycles – which has been a common European phenomenon – to the failure to contain inflation. This is a structural problem which will be no more cured by an independent Bank than will cancer or the common cold.

The distinguishing feature of monetary policy is that its short-term effects are often the opposite of its long-term ones. The UK government has committed itself to keeping inflation within a range of 1 to 4 per cent. But sticking to this target may be what some economists call "time inconsistent". In other words, it may not always pay the government to observe its own guidelines.

Stimulating the economy with low interest rates in the period before an election may bring a temporary increase in jobs and output. An increase in government spending, not offset by taxes or tighter monetary policies, will benefit specific groups, while the inflationary costs can sometimes be deferred. Thus it may pay a government, which is sincerely intent on keeping inflation low, to tie its own hands or "pre-commit" itself, just as it may pay someone trying to wean himself off smoking to clear all cigarette packets out of the house.

Why do ex-chancellors tend to put forward the idea and prime ministers to reject it?

There is no "ex" about it. Both Nigel Lawson and Norman Lamont put forward plans when they were chancellor. The unfortunate holders of that office know that they get the blame when inflation gets out of hand, but they also see how intrinsically political monetary policy decisions are, and how short-term tactical motives will interfere with decisions.

Prime ministers, on the other hand, have itchy fingers and feel that they cannot enjoy the full dignity of their office unless they can interfere in every area of policy implementation.

Independent national central banks are required under the Maastricht treaty for countries which want to go to a full monetary union, as a preliminary to establishing an independent European Central Bank. Therefore the idea has suffered guilt by association. But the UK can also have an independent central bank of its own quite apart from Emu.

Many people confuse democracy with the unfettered rule of the government of the day. A central bank is *more accountable* if it has to report directly or via parliament than under the present system under which all advice is secret and policies are supposed to emerge fully fledged from the head of the chancellor, like Athene from the head of Zeus.

The US Federal Reserve is free of presidential control and reports to Congress. One specific UK plan, dating right back to 1988, long before others climbed on to this bandwagon, is described in an appendix in Nigel Lawson's The View from Number 11. Under the Lawson plan, the Bank of England "would have the statutory duty to preserve the value of the currency". The idea was to "lock in an anti-inflationary force into the system as a counterweight to the strong inflationary pressures which are always lurking." The governor and members of the Court would be appointed by the government – the Court for a long period. The Bank would be answerable to parliament in the sense that the governor would appear regularly before a select committee.

Is there not a danger that an independent central bank will concentrate on inflation. How about output and employment?

The crucial insight is that there is no long-term choice between reasonable price stability and growth. So you might as well have price stability, which has advantages of its own and may provide a helpful background to policies to stimulate growth.

Of course, policies to squeeze out high inflation often involve a painful transitional recession. But if anything the pain is likely to be worse when policy lacks credibility. Pay and prices will rise for longer; and the main effects of a credit squeeze will for some time be on output and employment.

The speed of disinflation can be decided by democratic process. Under the New Zealand Reserve Bank Act, passed with cross-party support by the former Labour government in 1990, the Bank has total independence in the operation of monetary and exchange rate policy. But the act leaves the definition of price stability to the government, which sets a target range for inflation in the form of a personal contract with the governor, normally for a fixed five-year term. Contrary to bearsay, the Reserve Bank governor's salary is not tied to inflation, although his job is on the line in the event of failure. The government can amend the contract, but any change must be made publicly, ensuring that monetary policy is always transparent.

The Reserve Bank governor, Don Brash, describes the contract as "a useful bulwark against any government which might wish to return to the bad old days of saying one thing to the public about the need to control inflation and at the same time trying to get mortgage rates down before an election. That is the sort of thing which used to happen in New Zealand, and cannot happen now."

Don Brash was appointed by a Labour government, but has been reappointed by the outspoken National party finance minister, Ruth Richardson, for a further five years from this September. His new contract, like his old one, will require inflation to be maintained within a range of 0-2 per cent. The contract specifies the temporary adjustments that can be made for one-off price rises and for distortions such as the effects of mortgage rates.

The act marked a watershed for New Zealand, which had suffered double-digit inflation for most of the 20 years since 1970. The policy has become more popular since recession has given way to what appears to be a sustainable economic recovery. Growth in GDP reached 3 per cent in the 12 months to December, and is widely expected to stay near this rate.

According to Brash, the New Zealand Reserve Bank's most significant achievement has been a change in inflationary expectations. "Regardless of whether they agree with the policy, people know that the miserable bloke in the Reserve Bank is going to keep pursuing it."

Is not inflation yesterday's problem? Should we not worry more about depression and unemployment?

No one knows. But it is all too easy to have high inflation combined with high unemployment, as has frequently happened in Latin America. Although preventing inflation is usually the main task of central banks, occasionally there is another supremely important task: that is to prevent a cumulative contraction of spanding, such as that which occurred in tha 1930s when the national income of countries like the US and Germany fell by a half in money terms.

Although we have never had it since the second world war, I would give central banks responsibility for avoiding deflation as well as inflation. As Lord Lawson argues in his concluding chapter, a deflation in today's circumstances would almost certainly be associated with cumulative failures of financial institutions across national frontiers which could best be fought by independent central banks co-operating together.

Alas, I do not think they would do it well, but they could act more quickly and more informally than prime ministers and finance ministers. The Latin American debt crisis of the early 1980s was an example.

Which argument against an independent central bank do you find most difficult to answer?

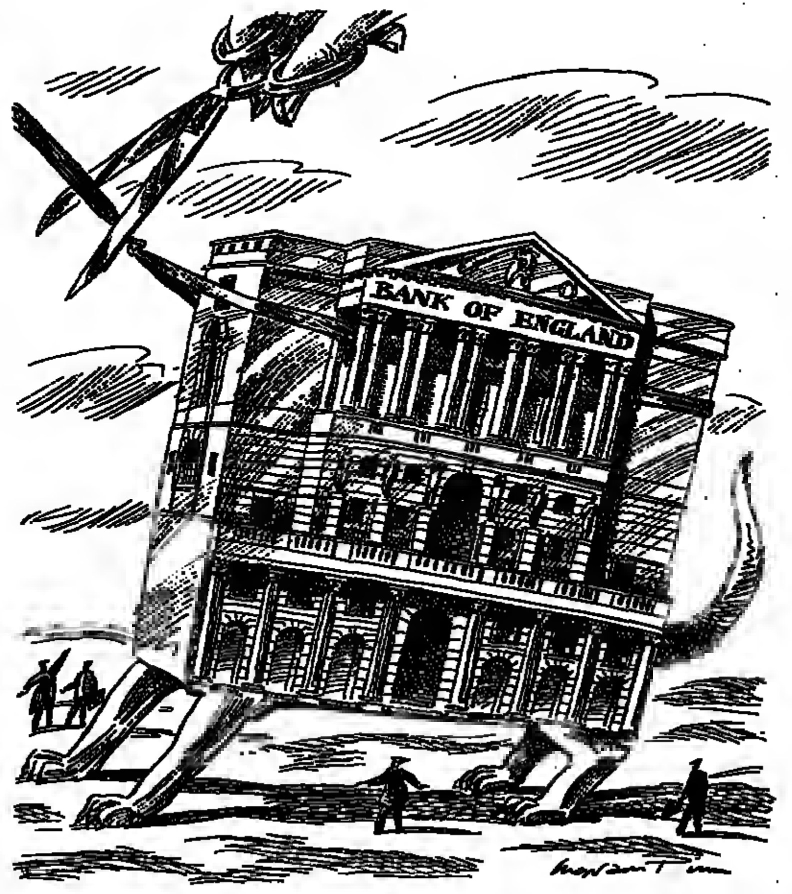
The knowledge that the central bank had the task of fighting inflation might make for bigger structural budget deficits. I am not sure how important this is in practice. The main examples of supposedly conservative governments running high budget deficits have been the US in the 1980s and Germany in the 1990s. The Reagan administration persuaded itself that tax cuts would pay for themselves through so-called supply-side effects. Germany would have had a high post-unification deficit anyway. But it is difficult to see how a pliant central bank would have helped in either country.

According to Don Brash, there are four key elements in central bank accountability: the objective of price stability; a clear policy targets agreement; the personal responsibility of the governor; and the publication of a regular monetary policy statement. New Zealand has all four; Britain has at most the first, and that not very clearly.

ECONOMIC VIEWPOINT

The true case for an independent Bank

By Samuel Brittan



Prime ministers have itchy fingers and feel that the dignity of their office requires them to interfere everywhere

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Longer-term threat posed by trade imbalances

From Francisco HG Ferreira.

Sir, While you understandably concentrate on the short-term issues addressed by Peter Sutherland, the newly appointed director-general of the General Agreement on Tariffs and Trade ("Failure on market access could 'sink' Gatt round", June 11), I found most interesting his awareness of a longer-term, but potentially much greater, threat. His call for ". . . legitimate interests, particularly those of the developing world, . . . to be taken into account by the developed world" could not be more relevant. Non-OECD countries (the "poor") – which account for some 85 per cent of the world's population – are responsible for a mere 25 per cent of the world's international trade (calculated using imports; data from the World Development Report of the World Bank, 1992).

I believe these numbers explain why the seemingly endless rows between the US, the EC and Japan focus so much of our attention. Nevertheless, developed countries ahould not underestimate the threat to themselves from ignoring trade demands from the poor majority.

Where goods and aervices cannot mova, people will. If income differentials are allowed to continue to widen – which they have a greater chance of doing without freer trade in agricultural and basic consumer goods – massive migration flows will be inevitabla. Unless, that is, the current trend towards closing external borders in the EC and ports in the US develops fully into an international system of global apartheid.

We should all wish Mr Sutherland well. His task in convincing OECD policymakers to take a long-term view is a hard but essential one.

Francisco H G Ferreira,
development economics research programme,
Suntory-Toyota International Centre for Economics and Related Disciplines,
London School of Economics,
Houghton Street,
London WC2A 2AE

ITV shareholder sees directors facing a conflict of interests

From Mr Nicholas Berry.

Sir, This week the chairmen of 15 ITV companies have been busy lobbying the heritage secretary for changes in the ITV network.

How many of the chairmen of the amaller companies – those that have been putting the case against permitted takeover in their regions – have been acting in the interests of their ownera, as opposed to those of their managements?

Directors have a duty to act in the interests of their shareholders. The managements of these companies are ignoring a fundamental conflict of interest between themselves and the owners – who are naturally interested in maximising value. As the largest shareholder in one of them, Grampian Television, I object to its directors lobbying against takeovers being allowed by next door neighbours.

One chairman, Mr Louis Sherwood of HTV, says he is acting "as a citizen". Shareholders in the ITV network in general and HTV in particular may feel he, and others, have got their priorities wrong.

Nicholas Berry,
chairman,
Stancroft Trust,
Bride House,
20 Bride Lane,
London EC4Y 8DX

Jobs for all a realistic goal

From Mr Andrew Britton.

Sir, In 1944 William Beveridge wrote: "Idleness is not the same as Want; but a separate evil which men do not escape by having an income. They must also have the chance of rendering useful service and of feeling that they are doing so." I offer this quotation in response to the letter from Prof Ronald Dore ("Proper recognition still to be given to unemployment problem", June 15). The case for full employment is not based solely on concern to alleviate poverty, but also on concern that everyone should participate in the economic life of the community. A "citizen'a income" would not satisfy that need.

I also believe that Prof Dore exaggerates the prohlems created for employment by technical progress and improved welfare provision. We do not at present realise the full potential of the labour force, except for a minority of high-fliers. The "learning capacity of people who did not do very well at school" is not developed as it could be – to judge by what is shown in international comparisons. The goal of full employment could still be achieved in the UK if it is given sufficient priority – and achieved well before the year 2020 on which Professor Dore asks us to focus our minds.

Andrew Britton,
director,
National Institute of Economic and Social Research,
2 Dean Trench Street,
Smith Square,
London SW1P 3HE

A lesson in leadership for all

From Mr David Grenier.

Sir, Your leader "Pay-off punch" (June 8) is helpful as far as it goes in supporting the Postel move to curb directors' rolling contracts. But does it go far enough?

Postel appears to have the limited objective of rolling back three-year contract to 12 months at the outside. Surely, however, the real issue is whether or not it is appropriate for directors to have service contracts of any duration.

Some interesting light is shed on this issue in the recently published 1993 report and accounts of Marks and Spencer. The section on corporate governance states categorically that neither the chairman nor any of the executive directors has any form of service contract with the company. *If M and S is prepared to* do without directors' service contracts, why shouldn't the same procedure be acceptable for all the top 100 UK companies without exception. This, after all, is what leadership by example is all about.

David Grenier,
chief executive,
Independent Investment Management,
Warnford Court,
Throgmorton Street,
London EC2N 2AT

$21bn covers more than new Hong Kong airport

From Mr Clinton Leeks.

Sir, Your report on Hong Kong's airport in the Aerospace survey ("Plethora of airports – Hong Kong", June 8) does us less tban justice. Simon Davies wrongly suggested we are building an airport costing US$21bn, which would indeed be very expensive when compared with Japan's $10bn airport at Kansai and Singapore's $1.3bn expansion at Changi.

In fact, our airport is only costing $8.8bn. The $21bn (all the figures are out-turn prices) also covers 34 kilometres of highways and a railway, including the world's longest suspension bridge carrying road and rail traffic, plus 350 hectares of reclaimed urban land and a new town for 20,000 people.

Along with other port and railway schemes, these interlinked infrastructure projects will form the basis for Hong Kong's economic expansion into the next century. They will ease problems in congested urban areas and open new areas for development, as well as starting a new highway to the border with China. That is more than just an airport!

Mr Davies might also have noted that we are making outatanding progress with construction of the $21bn programme: we have awarded contracts worth some US$4.4bn, all on time and within budget – a significant achievement by international standards. This is going ahead on a step-by-step basis while we continue talks with the Chinese government on financing arrangements for the airport and airport railway.

Clinton Leeks,
deputy director,
NAPCO,
8th floor, Shui On Centre,
Wanchai, Hong Kong

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Thursday June 17 1993

British TV thinks big

MR PETER Brooke, the heritage secretary, is considering whether to lift the ban on the UK's larger independent television companies being acquired or merging. Hopes he may do so have been raised by his assertion that Britain's broadcasting should not go the way of its motorcycle industry because of unreasonable restrictions. The rules should change, but not for the reason stated.

The issue has been precipitated by a European Community policy which will open all ITV companies to hostile bids from elsewhere in the EC from the start of next year. That makes a nonsense of a continued embargo on domestic takeovers. However, the most powerful reason for abolishing it is that it serves no useful purpose. The main arguments for keeping it are to prevent unhealthy industry concentration and preserve regional broadcasting services. But the strongest safeguard against anti-competitive behaviour is the application of the UK's standard merger laws.

Regional programming is best assured for now by enforcing franchise licence terms. That is what the Independent Television Commission is there to do. Longer term, though, provision of regional services need not continue to be regarded as a profitless social obligation. In the US, it has become a rewarding business, attracting many participants.

In Britain, variety in local services has been inhibited by scarce frequency spectrum. But new digital compression techniques – which may be introduced on the planned fifth ITV channel – and gradual expansion of cable television offer the promise of a far greater diversity of delivery systems. The ITC needs to ensure that these new sources of competition are allowed to develop freely.

However, Mr Brooke should be sceptical of some arguments advanced by the abolitionist lobby. Much is made of the cost savings which industry consolidation will permit. However, many of these efficiencies are available without mergers or acquisitions by, for example, pooling production facilities and contracting out services such as transmission. There is also a risk that potential savings will not go to better programming but will be dissipated in over-bidding for contested acquisitions.

Much the most dubious argument is that the ITV structure needs to consolidate if British broadcasting is to prosper internationally. True, even the biggest companies are dwarfed by foreign counterparts. But it is not obvious that they possess the commercial vision and skills to compete effectively on world markets. Indeed, the disappointing results of offshore excursions by BT suggests businesses based on domestic monopolies make poor national champions. Mr Brooke needs to remember that UK motorcycle manufacturers failed not primarily because of inadequate size, but because they grew used to captive markets and ignored new competitors until too late.

A dose of reality

Negotiations on South Africa's political future have reached a delicate stage, possibly a dangerous one. Tuesday's decision by the Inkatha Freedom Party chief, Mangosuthu Buthelezi, and a motley group of other political players from the white right and the black homelands to walk out of the multi-party negotiating forum raises the spectre of two competing factions whose rivalry could destabilise South Africa.

Chief Buthelezi and the white right have little in common other than antipathy to the expedient alliance between the government and the African National Congress (ANC). But, while they lack the support to govern South Africa, they may well have the capacity to make it ungovernable. A disaffected Natal, township violence and a security force with many right-wingers in its ranks – these elements could combine to make peace unattainable.

The only forum at which the country can forge a lasting settlement, including principles for a new constitution and rules for the country's first all-race elections, is at the multi-party talks taking place near Johannesburg. The first instinct of Mr Nelson Mandela, the ANC leader, and possibly of the government may be to threaten to go ahead without Inkatha. But both parties must know that it would be far better to persuade Chief Buthelezi to send his representatives back to the conference table. Equally, if chief Buthelezi takes serious stock of his options, he will know that his movement has nothing to gain from trying to scupper the peace process from the sidelines.

What the current impasse exposes is that, after months of wishful thinking, South Africa's constitutional negotiators are at last confronting the fundamental issues in the transition to democracy. Up to now delegates have created an illusion of progress by constantly referring the most difficult problems to technical committees, most recently, they masked the lack of progress on substantive issues by setting next April 27 as the date for elections to a constituent assembly.

If Inkatha's action brings the delegates down to earth it will have served a purpose. The issue that prompted its move – the powers of the provinces under a new constitution – is a critical one that politicians must address as a matter of urgency. The most sensitive concern of all is also one that has yet to be properly addressed. Both the ANC and the National Party speak of "power sharing" in a government to be formed after elections, but they have very different concepts in mind. For the ANC, which expects to emerge as the largest single party, it is a coalition in which they are the dominant partner. For the National Party, as President F. W. de Klerk made clear in a recent interview with the Financial Times, power sharing would be written into the constitution, with the leaders of the main parties taking major policy decisions by "consensus".

Until the negotiators resolve these two problems in a form which will be binding on a proposed constitution-writing constituent assembly, elections will not be viable. This week's upset may yet mark not the collapse of talks but the point at which they get down to business.

Local counsel

THE LOCAL Government Commission which is reviewing the structure of local councils in England has now published four reports. As anticipated when it was launched last year, the commission is approaching its task with no preconceived blueprint for how local government ought to be structured. The different solutions adopted in the first four reports, however, suggest that this pragmatic approach is less attractive than it seemed at the outset.

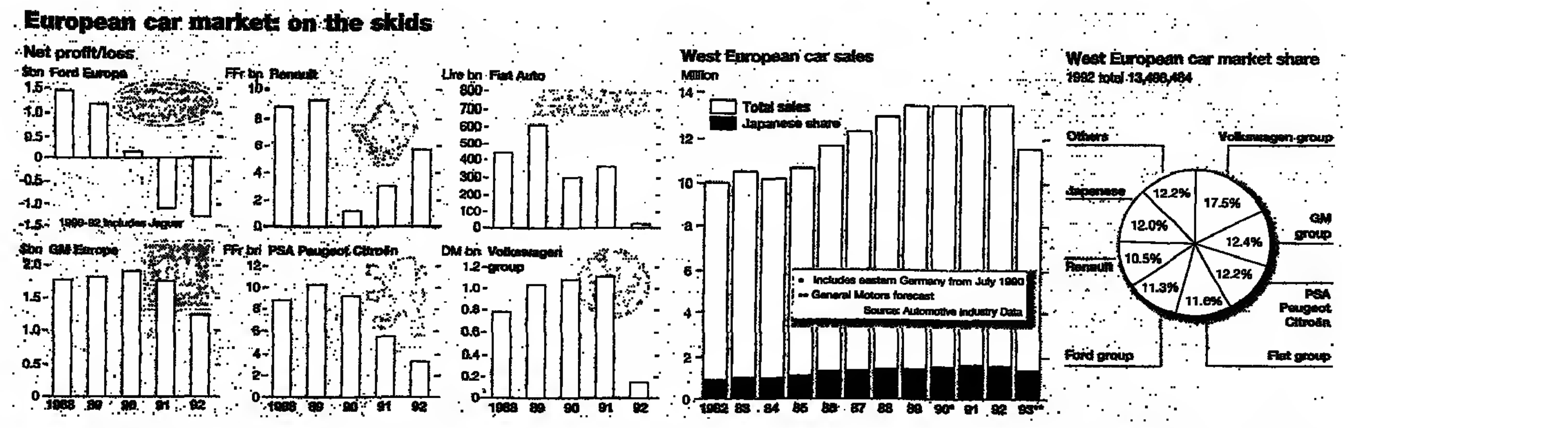
Some counties such as Derbyshire and Durham will survive, albeit without large towns like Derby and Darlington, which will be reconstituted as county boroughs. Others, such as Somerset and Gloucestershire, will survive only for "ceremonial and cultural" purposes, being divided into smaller districts. The "new" counties like Avon and Cleveland which failed to generate popular support (or even a county championship cricket team) are to be scrapped. The only option so far ruled out appears to be the preservation of the status quo in which district councils provide street-level services and county councils strategic services.

If the commission continues in this manner, much of the country will be divided into district councils varying greatly in size. The smallest are unlikely to be able to perform satisfactorily strategic functions like planning and economic regeneration. In the large conurbations, the creation of unitary authorities has required new quangos and joint boards to handle such issues. If this is repeated where county councils are abolished, it will do little to enhance accountability, one of the justifications for moving towards single-tier authorities.

Nor is it clear that reorganisation will always save money, the other rationale for eliminating a tier of local government. While each commission report has claimed savings for the local taxpayer, the calculations are hotly disputed by the councils recommended for the scrapheap. There may be scope for economies of scale where services are to be provided by fewer councils, as in Derbyshire. But where county services are to be divided up among several district authorities, one possible outcome is a growth in bureaucracy and higher costs to pay for it.

This piecemeal approach is a novel way of reorganising local government which, even after 14 years of centralisation, employs more than 2m people and spends £54bn a year. England needs a system of local government that is capable of strategic action and which combines local delivery of services with genuine electoral accountability. Is the Local Government Commission sure that is what its reforms will produce?

European car market: on the skids



The European auto industry is struggling against overcapacity, high costs and a fall in demand, writes **Kevin Done**

Carmakers hit the panic button

Europe has become the battleground of the world motor industry in the 1990s. As demand nosedives across the continent, the failure of many European carmakers to put their houses in order during the recent fat years is becoming glaringly apparent.

The race to regain global competitiveness is intense. By the end of the decade, the frontiers of the European car market will be thrown open fully to Japanese competition when all import restrictions end.

The sickening downward lurch in new car sales in the first five months of this year has forced carmakers to hit the panic buttons from Wolfsburg to Turin and from Stuttgart to Gothenburg.

Large parts of the industry have been forced on to short-time working; thousands of jobs have been axed; components suppliers are being squeezed ruthlessly to cut prices; and, as overcapacity grows, rationalisation and restructuring are the order of the day.

Ford of Europe, once the Ford group's main profit-generating machine worldwide, has racked up losses of more than $2bn in the past two years, exposed early by the long-lived recession in the UK, its biggest market in Europe.

Fiat, which now accounts for virtually the entire Italian car and truck industry, saw the profits of its car subsidiary, Fiat Auto, virtually wiped out last year with net income dropping to L16bn (£7m) from L361bn in 1991.

The rot set in deeply during the final months of last year as orders in most European car markets suddenly began to shrink. After more than doubling its profits in the first nine months of last year, the Renault group of France fell into loss in the final quarter, pushed down by the turmoil in the European currency markets, its share of losses at its partner Volvo, and the red ink of its truck operations.

The real horror story late last year emerged in Germany, however, where Volkswagen, the group that has led the west European market in terms of sales volumes for the past eight years, crashed deep into loss. After making a pre-tax profit of DM1.2bn in the first nine months of last year, it plunged into a pre-tax loss of DM563m in the final quarter and followed this with a DM1.2bn loss in the first three months of 1993.

According to a report by UK financial analysts James Capel: "The first quarter of 1993 has been the worst period for earnings [in the European auto industry] since the early 1980s and possibly for a period much longer than that."

It is not as if warnings had not been posted. The scale of the challenge to come from Japan became clear in the 1980s, and the industry has always been sensitive to changes in the volume of demand. Experience in the American market had shown how quickly carmakers' profits could melt away, as uncompetitive producers faced the twin challenges of recession and a deep incursion by Japanese rivals into their domestic market.

Europe had always appeared to be next in line, but for a time the hour of reckoning was delayed by a car market that had seemed to defy gravity.

New car demand in west Europe bounded from one record year to another during the second half of the 1980s, with sales jumping from 10.17m in 1984 to 13.47m in 1989. Until 1992 demand held steady at about the record level of 13.5m.

Beneath the deceptively calm surface, however, all was not well as demand began to diverge wildly in key markets. With the onset of recession, sales in the UK slumped by a third over three years from their 1989 peak, and sales faltered too in France. These setbacks were more than compensated for by the unprecedented surge in new car sales in Germany, Europe's biggest market, in the wake of unification.

Carmakers, most of all the Volkswagen group which controls about 28 per cent of the German market, were able to surf on the rising wave of demand in Germany, where the car market surged from 2.8m in 1989 to 4.2m in 1991 and 3.9m last year. Now the German party, which all carmakers shared in, is over. The hangover is proving unpleasant.

While the present crisis is at its most acute in Germany, the pain is being felt elsewhere in the European industry

With the UK as virtually the only exception, new car markets across west Europe have shrunk alarmingly in the first half of 1993. In the first five months alone, 1m fewer new cars were sold in west Europe than in the same period a year ago, with sales dropping by 17.3 per cent to about 5.2m. Sales were lower than a year ago in 15 of 17 markets across west Europe.

In Germany, sales in the first five months fell year-on-year by 20 per cent, in Italy the decline was 21.1 per cent, in France 18.5 per cent and in Spain 31.2 per cent. The flickering of recovery in the UK – with sales up by 8.9 per cent this year – pales against declines of this magnitude elsewhere. Forecasts by leading carmakers suggest that sales could fall to only 11.4-11.5m in the full year.

All carmakers in Europe are under fierce pressure – with only the UK's Rover group increasing its European sales this year – but the German industry is feeling the most intense heat.

For too long, it has rested on its laurels. Now it is finding that its bloated cost-base has left it with a worrying lack of competitiveness not only against Japanese carmakers but also against its European rivals.

"Production costs in Germany are too high," says Mrs Erika Emmerich, president of the German auto federation. "The cause is labour costs as well as energy, transport and environmental costs. Working hours are shorter than in the auto industries of most other countries. And corporation tax is higher than in our most important competing countries."

Based on exchange rates last December, German auto makers had total wage costs of DM47 an hour, two-thirds higher than the average of DM28.3 in the rest of Europe, and 37 per cent higher than in both the US and Japan at DM34.4 an hour. German car workers clocked up only 1,483 hours in 1991 (the latest figures available), a third fewer than the 2,181 hours worked by a Japanese car worker, and 27 per cent fewer than their counterparts in the US at 2,022 hours.

Mr Ferdinand Piëch, who took over as the head of Volkswagen in January to lead the troubled group's drastic restructuring, has not sought to hide the problems behind the cloak of recession.

"The VW group's current difficulties can only be blamed in small part on the weakness of new car sales – and the same is true for other German manufacturers," he says. "The real cause is much more the structural problems of the entire sector. We have to accept that in the eight years of booming sales we did not do our homework. Because as soon as sales fall we are in the red."

Intent on expanding its sales and market share at the expense of cutting fat and keeping costs under control, Volkswagen, the European market leader, has become the continent's highest-cost producer. French carmakers have a 20 per cent cost advantage over the group, says Mr Piëch, and the Japanese a lead of 25-30 per cent.

The bare-knuckle legal fight between Volkswagen and General Motors over Mr José Ignacio López de Arriortúa, whom Volkswagen recently poached from GM to lead their cost-cutting drive, shows just how frayed the nerve-ends have become. Cutting purchasing costs – Mr Lopez's forte – is one way forward for VW, but the key to global competitiveness is unlikely to be found in a German courtroom.

The remedies prescribed by VW's management have a familiar ring:

- Jobs are one of the prime targets, with last year's 7,300 reduction at VW's six domestic German plants to be followed by a cut of at least another 12,500 in 1993-94. Worldwide the group, which includes Audi, Seat and Skoda, is cutting 30,000 jobs in 1993-94 to 243,000.
- Capital investments are being drastically pruned, with a halving of planned spending across the group and a virtual halt on investment at Audi and Seat for the rest of the year.
- Components suppliers are being put under severe pressure to cut prices. Some are reporting demands for cuts of up to 30 per cent over the next three years.
- At the same time the group is seeking to rationalise drastically its production and engineering processes with the urgent adoption of "lean production" methods. It is also seeking to reduce the proliferation of similar components across the group's various model ranges, by moving to the use of more common components.

Nissan, Toyota and Honda show they can reach Japanese levels of quality and efficiency with European workforces

Volkswagen is not alone in resorting to drastic remedies.

In a stunning departure from corporate tradition, Mercedes-Benz, the world's most prestigious luxury carmaker, is trying to rethink the whole way it does business with "a very extensive realignment of its strategic product policy", led by Mr Helmut Werner, who took over as chief executive last month.

He admits that Mercedes-Benz's present luxury and executive cars are "over-engineered", and says that the company would end up being "priced-out" of world markets if it persisted with such a policy for developing new models.

Mr Werner claims that the only way Mercedes-Benz can maintain its engineering and quality leadership is if it can also achieve cost leadership. Gone are the days when the charging of premium prices could disguise an uncompetitive cost-base. "No one in the world is prepared to pay for German complacency on the cost front," says Mr Werner.

About 13,000 jobs were already eliminated by Mercedes-Benz last year in Germany (at its car and commercial vehicle operations), reducing the workforce from 225,000 to 212,000 by the end of 1992. Another 14,500 jobs are scheduled to be cut in the coming two years.

While the present crisis is at its most acute in Germany, the pain is being felt elsewhere in the European industry. After two years of record losses, Ford of Europe has been in the process of cutting 10,000 jobs since late last year.

Fiat, under heavy attack by its rivals in its domestic fastness of Italy, cut 9,000 jobs in its car operations in the two years to the end of 1992. Under the pressure of falling sales it resorted to halting production lines to eliminate the output of 230,000 cars last year and 180,000 in the first half of 1993.

Even while production in existing plants is being pruned, new plant capacity is coming on stream. European producers are commissioning plants with a capacity for about 1.5m vehicles a year between mid-1992 and the end of 1994, although VW is delaying part of its expansion in eastern Germany. In addition, Japanese vehicle makers are expected to have built a capacity in Europe for some 1.2m vehicles a year by the end of the decade.

"The whole industry, but European manufacturers in particular, have to face one particularly severe international challenge. This is worldwide overcapacity," says Mr Bruno Adelt, executive vice-president of the Volkswagen brand division. "For the remainder of the 1990s we estimate this at more than 10m vehicles... Excess capacities in Europe will greatly increase, competition will be tougher and above all pressure to sell at lower prices will increase dramatically."

Faced with the accelerating contraction of the market, established European producers are clamouring for intervention by the European Commission to renegotiate Japanese import levels.

"The agreements between the European Community and Japan are not enough," says Mr John Hardiman, chief executive of Ford of Germany. "We are deeply dissatisfied... We are demanding that Brussels sets Japanese export quotas exactly in line with the actual development of the market... You do not have to be a prophet to foresee that the goal of orderly adjustment and a far-reaching restructuring of the European auto industry cannot be reached by 1999."

The real challenge is not so much the Japanese imports, however, as local Japanese production in Europe, where Nissan, Toyota and Honda are already showing that they can reach Japanese levels of quality and efficiency with European (British) workforces, albeit in new plants and with new labour agreements.

In the middle of these challenges European auto industry share prices have performed with remarkable resilience. Some brave investors believe they can see the start of the recovery, but most carmakers still cannot imagine when the present decline will stop.

OBSERVER

The City's dressing down

Hands up all those who turned up at the Lord Mayor's Guildhall dinner this week minus their white tie. Is the outbreak of black ties amongst the bankers and merchants yet another sorry sign of the way standards are slipping in the Square Mile?

To a degree, Celestria Noel, social editor of Harpers & Queen, sympathises with confused guests, especially those who came from out of town. The invite specified evening dress and decorations. Not a word about white ties. "You can wear decorations with black tie. They should have stipulated white tie" Noel opines.

Actually, the high society's diarist lets it be known she is infinitely more concerned by the *faux pas* of the "children of the sixties" now inhabiting positions of power, than unsophisticated foreign bankers. "People wear what they like these days" sighs Noel. Buckingham Palace, it seems, is about the only place left where people dare not wear the wrong species of tie.

Watchdog wanted

■ Expect word shortly on who is going to replace Gerry Corrigan, as president of the Federal Reserve Bank of New York. Corrigan is not due to depart until August 20th. But today will be the last monthly board meeting of the NY Fed before Corrigan goes off on a long vacation and there is also a big farewell bash for him in New York tonight.

The delay in naming Corrigan's successor is starting to cause a headache in the rest of the central banking community since he is also chairman of the Basle committee on banking supervision. Brian Quinn of the Bank of England would be an obvious candidate for the Basle job. But his chances might have been affected by the fuss over the BCCI affair, and anyway the committee's first two chairmen, George Blunden and Peter Cooke, were both Bank of England types.

Jean-Louis Butsch, secretary general of France's La Commission Bancaire is one possibility and the Dutch provided Corrigan's predecessor, the late Huib Muller. But Corrigan is the most senior central banker to do the job to date and the fact that the Basle committee is waiting to see who replaces him before making its own choice suggests that there is no obvious frontrunner.

Li let loose

■ Another 1980's shooting star turned felon savours freedom. Ronald Li, former chairman of the Hong Kong Stock Exchange, walked out of Stanley prison yesterday, where he had been serving time on corruption charges. Looking every bit of his 63 years, Li told the world: "I am an old man now; it's time to retire."

Whatever the authorities thought about his performance running the bourse, Li had proven a model prison inmate, beavering away in the library to earn him the brownie points thet helped secure an early release.

Still worth on the right side of HK$7bn, the "uncle", as he was known to local brokers, can at least look forward to seeing out his days in relative comfort.

'I couldn't afford the whole knighthood'

Lording it up

■ If there seems to be a bit of a power vacuum in Canberra this week, the explanation is quite simple. No less than four of Australia's 19 cabinet ministers are in London: Gareth Evans, the foreign minister, Simon Crean, minister of primary industries and energy, Laurie Brereton, minister for industrial relations and Kim Beazley, minister for employment.

Each has a busy round of meetings, ranging from discussing nuclear dumps with Douglas Hurd to woolly jumpers with the International Wool Secretariat. Also in town - what a coincidence - are the lord mayors of all Australia's state capitals. Surely this sudden interest in the mother country cannot have anything to do with the second test match beginning at Lord's today?

Mystery woman

■ Until recently trying to assemble a picture of the secretive Fred Olsen, owner of Timex, numerous tankers, and much else, was rather like trying to sketch the invisible man.

Worries about terrorist attacks were said to be the reason why one of Norway's most mysterious shipping tycoons kept such a low profile. Suddenly, however, Olsen has begun to pop up on TV screens where he comes across as a rather nice elderly gent who doesn't know what terrible things his subordinates have been doing at the doomed Timex plant in Dundee.

The old man has certainly impressed Alex Salmond, leader of the Scottish Nationalist Party. He had Olsen on the phone for an hour and a half on Tuesday, and Olsen was paying for the call. "I couldn't get him off the phone", says Salmond.

Ninety minutes on the blower might not sound long for a politician, but it is a veritable age for an international businessman used to making snappy decisions. "He kept asking me what I would do" says Salmond, who has already faxed his answers to Norway. "I wish I had phoned him earlier" laments the man who does not hold out much hope of a last minute reprieve.

Come to think of it, the SNP leader might have had more luck if he had rung Fred's daughter, Anette, who many think really runs the group these days.

Departridge

■ His ten years at the head of the Bank of England, said Robin Leigh-Pemberton at the Guildhall on Tuesday, had been a bit like the twelve days of Christmas: "Twelve economies diverging. Eleven Lord Mayors presiding. Ten select committee MPs a-questioning. Nine ERM members a-realigning. Eight trade secretaries a-trading places. Seven wise men arguing. Six chief secretaries cutting. Five monetary aggregates. Four chancellors of the exchequer. Three deputy governors. Two prime ministers. And one Governor of the Bank of England."

FINANCIAL TIMES
Thursday June 17 1993

Legal move undermines transition to democracy

Court bans publication of Nigerian poll result

By Paul Adams in Lagos

THE POLITICAL future of Nigeria was thrown into renewed doubt last night when the commission overseeing presidential elections held last Saturday suspended publication of the outcome.

The move followed a court ruling restraining it from announcing the result. It lends substance to fears raised by pro-democracy groups in Nigeria that the transition to democracy in Africa's most populous state, promised by the military government of President Ibrahim Babangida, is in jeopardy – after being put back three times in the past three years.

Gen Babangida's options are now far from clear. Extension of military rule would be controversial yet the transition to civilian rule has been seriously undermined, and the August handover date appears impractical.

Although a presidential decree in April stated that no court could stop the commission carrying out Nigeria's first presidential elections for a decade, the electoral body says it will respect the latest ruling from the high court.

Mr Moshood Abiola, the millionaire Moslem businessman who was presidential candidate of the Social Democratic party, one of two almost indistinguishable rival parties created by Mr Babangida's government, had been declared the winner in 13 of the country's 30 states by Sunday night.

Since then no more returns have been released. Those close to the commission say Mr Abiola won by a clear margin, taking 59 per cent of the votes cast.

The injunction against the electoral commission was brought by the Association for Better Nigeria, an unofficial pressure group which is seeking the extension of military rule for at least another four years.

It claims to represent the views of most Nigerians – and can draw some strength for its arguments from the low turnout at the polls, estimated at below 40 per cent – but is thought to have close links with the presidency. Gen Babangida took power in a coup in 1985.

The Campaign for Democracy, another pressure group, won an injunction against the ABN in April at a high court in Lagos on the grounds that a decree in 1992 made it illegal to campaign against the transition process. The ABN has ignored that injunction and the presidency has made no comment on the legal wrangle.

Miyazawa faces confidence vote over reform

By Robert Thomson in Tokyo

JAPAN'S ruling Liberal Democratic party faces a showdown today over the reform of the country's scandal-stained political system. Opposition parties have promised to launch a no-confidence motion against Mr Kiichi Miyazawa, the prime minister, and his cabinet.

If the motion is successful, Mr Miyazawa will be forced to dismiss the cabinet or call a general election, prospects which prompted concern yesterday among business leaders in fear of instability.

The outcome of a no-confidence vote will hinge on Mr Tsutomu Hata, the former finance minister who heads a pro-reform LDP faction. He has indicated he is prepared to abstain. If the members of his faction choose to do so, the LDP will still have a small majority in the lower house, but if they vote against the party, the Miyazawa cabinet will fall.

Mr Miyazawa had previously threatened to call an election if a no-confidence motion was formally proposed, but his advisers were attempting to reach a compromise with LDP reformers last night, fearing that th.. party would be badly bruised in a snap election.

Four opposition parties yesterday said they would propose the motion after the LDP decided not to compromise on its plan for the introduction of a single-seat electoral system to replace the present multi-seat system, which is blamed for encouraging corruption.

The opposition parties want a mix of single-seats and proportional representation, believing the combination would give them a better chance of success against the powerful LDP. By not seeking a compromise, the LDP is attempting to end the reform debate, since the ruling party's proposal would stall in the upper house, where it does not have a majority.

Mr Sadao Yamahana, the chairman of the Social Democratic party of Japan, the largest opposition party, said the LDP's blocking of the reform debate gave his party no choice but to propose a no-confidence motion: "We must reform the political system, and we cannot allow the LDP to stop the debate. We want to launch a joint action with other parties."

Mr Miyazawa may attempt to appease the opposition by proposing an extension of the present parliamentary session, due to end on Sunday, specifically to debate political reform. Some opposition politicians are also uneasy about reform, which could threaten their own hold on power, and may accept an extension as compromise.

Reform bluff of LDP is called, Page 4

Finance minister faces close questioning by Bundesbank

By Christopher Parkes in Frankfurt and Quentin Peel in Bonn

MR THEO WAIGEL, the German finance minister, is expected to be closely questioned on the critical state of the country's public finances at today'a meeting of the Bnndesbank's policymaking council.

The 16-man council, which will also review interest rates and the state of the economy, will seek assurances from the minister that spending will be cut. Although Mr Waigel is regarded as a lame duck in Frankfurt, his renewed attempts to cut expenditure are seen as the key to a resumption of Bundesbank interest rate reductions.

Ballooning government deficits and a borrowing requirement expected to reach DM150bn ($93.7bn) this year after DM130bn in 1992, are now the main obstacles to further moves.

Signals from the central bank yesterday auggested that the internationally important discount rate would not be reduced from 7.25 per cent. The bank left unchanged the securities repurchase rate, at which it supplies funds to the banking system, for the sixth week in succession.

In Bonn, a senior government official said social spending, including unemployment benefits, would have to be cut to keep the budget deficit under control. He suggested that unemployment, currently standing at 3.3m, could rise to between 4m and 5m next year.

"We cannot leave unemployment support at current levels if the jobless numbers go up to 4m to 5m", he said. But be warned that the government would be under heavy political pressure to ease the necessary cuts, because of a string of local and national elections due in 1994.

Separately, Mr Günter Rexrodt, the economics minister, said the downturn in the west German economy would be even more severe than forecast at the turn of the year, and could shrink by 2 per cent or more in 1993. "An economic turnround is not yet visible," he told the economy committee of the Bundestag.

He admitted that the forecast growth rate of 5 per cent for east Germany was based largely on public sector subsidies from west Germany, and was still not self-sustaining.

The state of the economy and recent rate reductions in other European countries have continued to fuel speculation among mainly foreign analysts of Bundesbank action today or at the next meeting on July 1.

Mr Waigel's credibility suffered when the government's first attempt at savings resulted in a hefty package of tax increases against the Bundesbank's urgings.

Lopez makes sparks at VW

Continued from Page 1

approached by Mr Lopez shortly before Christmas. This was widely seen as an attempt to distance himself from the controversy surrounding his new employee.

Mr Lopez said this week that they had been brought together by a components supplier. This version was later confirmed by the group's chief spokesman, who blamed a "misunderstanding", and said he did not know if such meetings between arch-rivala were normal events.

UK body fines Goldman

Continued from Page 1

and which it was seeking to sever its trading relationship. It was this last transaction which left Goldman with a capital shortfall ranging from £9m to £20m for a period of seven business days..

Yesterday, Goldman stressed that regulators had not concluded it engaged in or knew of any illicit conduct and sought to describe its rula breaches as technical in nature.

Mr Greg Palm, its joint chief counsel, aaid they occurred because information abont the free payments "was not effectively combined with knowledge of the regulatory capital effect of such a payment giving rise to the computational and financial reporting errors".

Asked whether such rule breaches had occurred in the case of any client other than the Maxwell interests, Mr Palm said Goldman did not know for certain. However, the SFA is believed to bave conducted a thorough review of portfolio transactions and uncovered no other instances of rule violations.

Asked why the errors had occurred only in the case of Maxwell-related entities, Mr Palm said: "The identity of the counterparties to the trades involved are wholly unrelated to the breaches of the regulations".

THE LEX COLUMN

Goldman fingered

One should not be misled by the size of the fine, trivial though £160,000 is for an institution as large as Goldman Sachs. In the context of its limited powers of investigation, the Securities and Futures Authority has coma up with some damaging indictments of Goldman'a dealings with the Robert Maxwell empire. No investment bank with global pretensions can relish the revelation that, for seven business days in 1991, it had a shortfall of up to £20m in its regulatory capital. No such bank can happily admit that, on three separate occasions, it failed to consider the full implications of late delivery – itself the rarest of events – of securities it had bought from clients connected with Mr Maxwell.

Publication of such findings is an important part of the sanction process. The revelation that Goldman's procedures and supervision were inadequate deals a blow to its reputation more damaging than any fine. That is about all one could have expected from an inquiry confined to the remit of examining Goldman'a compliance with SFA rules.

But the SFA chooses its words carefully. It says it "did not conclude" that Goldman or any of its personnel participated or were aware of any illicit conduct. That seems to leave the door open to further investigation in the light of other enquiries still in train. The statement that Goldman was not aware of illicit dealings by Mr Maxwell or his associates is anyway a rather limp exoneration. Given Mr Maxwell's dwindling reputation at the time, perhaps it should have tried harder to make itself aware. The ease with which it flonted SFA rules suggests a culture that was too laisser-faire.

NFC

It will be a crying shame if NFC abandons the practice of publishing a best estimate of profits for the coming year. At least its official forecast is freely available to all investors. Institutions with access to brokers' forecasts – massaged up or down by companies at private briefings – would barely notice the change. NFC's army of employee-shareholders might find themselves disadvantaged.

Still, the company cannot be blamed for worrying about potential litigation, especially in the US, should it ever fail to hit its target. The broader question is whether a more conventional style of communication with shareholders might lay the ground for a more conventional pattern of ahare ownership.

FT-SE Index: 2883.0 (+13.0)

Granada

Source: FT Graphite

With shareholders' funds of £350m supporting turnover approaching £2bn, NFC is not well endowed with equity. That partly explains the rapid rise in gearing during the first half. An acquisition in logistics, for example, would demand substantial goodwill write-offs and further weaken the balance sheet. Since employees own 15 per cent of the shares, a rights issue would be touchy. Smaller placements of equity might be used to fund acquisitions, or cement alliances such as that with Schneider in the US. That might explain NFC's concern with the potential pitfalls in the US courts.

While its parcels business is losing money and with reorganisation provisions promised for the second half, though, NFC has its work cnt out closer to home. Even if Lynx can be quickly turned around, it is questionable whether NFC should slug it out in the overcrowded parcels market. Another good performance from Exel Logistics should be a pointer to the way ahead.

Granada Group

The Granada recovery bandwagon rumbles on. A 28 per cent improvement in underlying pre-tax interim profits on sales np less than 1 per cent continues to reflect the bracing effects of Granada's re-invigorated management.

Granada's rental activities, which represent about half group profits, may be slowly shrinking but they remain highly cash generative – especially since depreciation has overtaken capital expenditure. Catering, television, and even compnter services continue on their upward trend. But there are blemishes. Locking into interest rates of 12 per cent a few years back is a minor embarrassment. Losing the chance to buy W.H. Smith's stake in Yorkshire Television may prove a more serious setback, especially if the government really does relax the ITV franchise rules.

Granada's shares have bounced strongly as Mr Gerry Robinson has strengthened his grip on the business. Continued outperformance will increasingly depend on successful expansion of turnover. The acquisition of Sutcliffe should guarantee satisfactory progress for at least a year or two. Thereafter, the prospects grow more opaque. Still, Granada is proving it has the happy habit of generating cash and the management skill to apply it productively. That is a rare enough combination and should secure Granada's premium rating over the longer run, especially if BSkyB or the National Lottery turn up trumps.

Tarmac

Selling holes in the ground is not as profitable as it used to be if Tarmac's sale of Econowaste is any guide. When Wimpey and NFC sold their landfill sites, they emerged with stinking profits. Tarmac's £44m sale smells far less sweet. This may owe mnch to the negotiating power of Hanson. It also reflects the hazards of starting disposal programmes late in the day. Shareholders may simply be relieved that Tarmac has completed two-thirds of its targeted £300m of asset sales. They may prove less sanguine, though, if Tarmac again trails Wimpey and taps them for more funds.

Standard Chartered

On Monday, Standard Chartered beld a meeting for eight selected analysts to discuss the organisation of its UK operations. On Tuesday and Wednesday, its share price rose by 6 per cent. Standard emphasises that the analysts' meeting was of a non-financial nature and the swing in its share price on a volume of only 3.4m shares reflects the lack of liquidity in its paper. Just the same, such a sharp movement so soon after such a limited hriefing leaves an uncomfortable feeling. If Standard had something interesting to say about its UK operations, it could have gone to the small extra trouble of putting out a statemeot through the stock exchange.

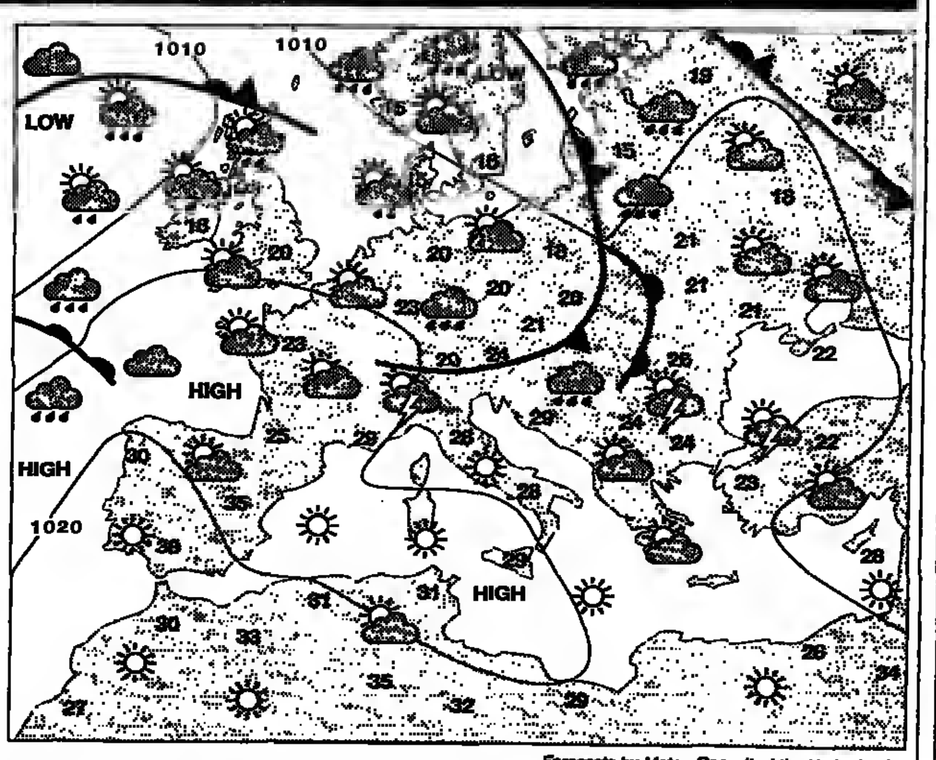
FT WORLD WEATHER

Europe today

Low pressure will influence Scandinavia and western Russia with cloudiness and rain. In southeast Norway and southern Sweden, a few sunny spells will occur. Over the Low Countries and France, it will temporarily be more settled, with sunny periods. Over the Alps, it will be rather cloudy with outbreaks of rain. A cold front over Finland will extend to the Balkans, causeing widespread showery rain. Sunny periods are expected over Romania, Bulgaria and western Turkey but afternoon thunder showers will also develop. Temperatures will rise to 23-27C. Weak high pressure will influence the Mediterranean with sunshine and temperatures in the interior of Spain will reach well over 35C.

Five-day forecast

On Friday, the British Isles will be cloudy with widespread rain, but later in the day the weather will clear though a few showers will push in from the west. Over the Mediterranean, it will remain sunny and warm. In Portugal, ocean-cooled air with thundery showers will arrive by Friday. The showers will spread east over France and Spain by the weekend. On the weekend temperatures will rise to 27-33C in Italy and central Europe.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	37
Accra	thund	29
Algiers	fair	29
Amsterdam	fair	18
Athens	fair	29
Bangkok	thund	35
Barcelona	sun	25
Beijing	rain	32
Belfast	fair	18
Belgrade	shower	26
Berlin	fair	19
Bermuda	shower	26
Birmingham	fair	19
Bogota	fair	18
Bombay	rain	29
Bordeaux	fair	23
Brussels	fair	20
Budapest	rain	22
Buenos Aires	shower	13
Cairo	sun	33
Cape Town	fair	21
Caracas	cloudy	28
Chicago	fair	31
Cologne	fair	21
Copenhagen	shower	18
D' Salaam	fair	28
Dakar	fair	28
Dallas	fair	33
Darwin	fair	31
Delhi	fair	42
Dubai	sun	37
Dublin	shower	18
Dubrovnik	fair	27
Edinburgh	shower	17
Faro	sun	29
Frankfurt	fair	22
Geneva	shower	23
Glasgow	cloudy	16
Hamburg	shower	17
Helsinki	rain	15
Hong Kong	thund	31
Honolulu	fair	30
Isle of Man	fair	16
Istanbul	thund	25
Jersey	fair	17
Karachi	fair	36
Kuwait	sun	40
La Paz	fair	18
Las Palmas	sun	27
Lisbon	sun	34
London	fair	21
Los Angeles	sun	30
Luxembourg	fair	20
Lyon	fair	25
Madeira	sun	26
Madrid	sun	34
Majorca	sun	27
Malta	sun	28
Manchester	fair	18
Manila	fair	34
Melbourne	fair	14
Mexico City	hazy	24
Miami	fair	31
Milan	sun	29
Montreal	cloudy	23
Moscow	shower	18
Munich	shower	18
Nairobi	fair	24
Naples	fair	27
Nassau	shower	31
New York	sun	30
Nice	fair	24
Nicosia	fair	30
Oslo	fair	17
Paris	fair	22
Perth	fair	19
Prague	rain	22
R' de Janeiro	shower	23
Rangoon	rain	30
Rekjavik	cloudy	15
Riyadh	sun	41
Rome	sun	28
S' Francisco	sun	31
Seoul	cloudy	25
Singapore	fair	30
Stockholm	shower	17
Strasbourg	fair	23
Sydney	fair	16
Tel Aviv	sun	28
Tokyo	cloudy	24
Toronto	sun	28
Tunis	sun	28
Vancouver	sun	22
Venice	sun	28
Vienna	cloudy	21
Warsaw	shower	13
Washington	sun	30
Wellington	shower	12
Winnipeg	fair	20
Zurich	fair	21

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday June 17 1993

INSIDE

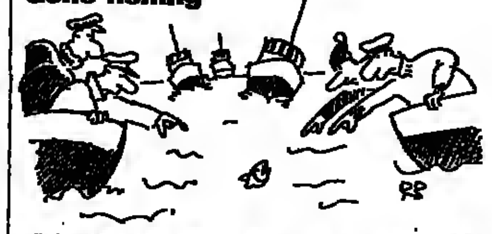
Tarmac sells waste arm to Hanson

ARC, a subsidiary of Hanson, the Anglo-US conglomerate, has paid £44m ($68m) for the principal assets of Econowaste, the waste disposals business built by Tarmac. The sale makes Hanson's Greenways Landfill subsidiary the third largest owner of landfill sites in the UK. Page 19

Surge in Spanish turnover

Turnover on the Spanish bourse rose by 86.5 per cent in May, fuelled by expectations of a change in government and forecasts that the peseta would be devalued. Switzerland's turnover also rose, by just under a fifth. Back Page

Gone fishing



All the main fish resources in the world are under stress and to some extent over-fished, according to the United Nations Food and Agriculture Organisation. The 1992 world fish catch declined for the third consecutive year to just under 97m tonnes compared with a record 100m tonnes in 1989. "We are going through a crisis in world fishing," says one FAO specialist. Page 22

MCI expects further alliances

For MCI Communications, this month's tie-up with British Telecom was coup and probably the single most important deal its 25-year history. While the first priority of Mr Bert Roberts, MCI chairman, is to complete the BT deal, he expects to form some important domestic alliances over the next 18 months. Page 17

Junk bonds

So far this year $23.7bn in new high-yield, or junk, debt has been issued in the US, and the market is on course to smash last year's annual total of $38bn, itself a record. Companies have been queueing up to issue junk bonds and investors have been eager to buy them because the returns have been so rewarding. Page 16

Scottish Nuclear jumps to £66m

Scottish Nuclear, the state-owned company which operates Scotland's two nuclear power stations and generates nearly half of its electricity, more than quadrupled pre-tax profits to £65.8m ($101m) for the year to March 31. Page 20

Italian job for CIA Group

CIA Group, the London-based media buying and planning group, has expanded into Italy via a 5 per cent staka in staka in Blufin, parent company of the Medianetwork group. CIA is paying L2.5bn cash ($1.65m) and 400,000 shares from Blugroup, the privately-owned Italian company. Page 20

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Continental AG	206.2	+	4.2
Karstadt	532	+	9.8
Lufthansa	110	+	2.9
Rheinmetall Brln	258	+	5
Varta	294.3	+	4.3
Falls			
Akzo Ind	515.5	–	9.5

NEW YORK ($)

Rises			
Club Med	25¾	+	1⅛
Costco Whole	18⅜	+	1¼
Price Co	37½	+	5¼
Falls			
Digital Equipment	42¼	–	½
Hewlett-Packard	82¼	–	4½
USAir	17¾	–	1½

New York prices at 12:30.

PARIS (FFr)

Rises			
Bancaire Cie	515	+	25
CGIP	1157	+	55
Dollfus Mieg Cie	258.8	+	15.7
Eridania B-Say	687	+	34
Falls			
Legris	134.5	–	5.4
Sommer-Allibert	1477	–	23

TOKYO (Yen)

Rises			
Inax	1120	+	40
Mazda Motor	521	+	16
M'bishi Gas Chm	515	+	16
Falls			
Arabian Oil	5470	–	380
Izumiya	1650	–	140
Orient Corp	840	–	53

LONDON (Pence)

Rises			
Aegis	40	+	4
Anglian Water	484	+	14
Clayform Prop	33	+	8
Hemingway Prop	31	+	2½
Hunters Armley	142	+	6
Ladbroke	179	+	7½
Lon Clydeside	80	+	5
North West Wtr	474	+	12
Porter Chadburn	28	+	6
Quality Sftware	580	+	25
Rolfe & Nolan	280	+	11
Sheriff	120	+	7
Standard Chtd	795	+	26
Tex Hldgs	45	+	4
Tottenham Hspr	93	+	6
Welpac	36	+	4
Falls			
Comac	75	–	3
Greenway	70	–	5
Hampden	32	–	2
Hartons	9	–	1½
Ramco Oil	185	–	13

Ferruzzi troubles take political turn

By Haig Simonian in Milan

LEADING bank creditors of Italy's troubled Ferruzzi group met Bank of Italy officials yesterday as the collapse in the company's share price took on a new political dimension.

The meeting came amid signs that foreign banks, which have lent to Ferruzzi, might be invited on to the five-bank committee of leading creditors. Mr Guido Rosa, the local head of France's Société Générale and chairman of the foreign bankers' association in Italy, may join the talks as the foreigners' representative.

The Bank of Italy has moved into the fray as the scale of Ferruzzi's financial difficulties have become more evident. The group and family holding company is known to have total borrowings of about L31,000bn ($20.9bn).

Brokers are asking why warning bells at the Bank of Italy, which is supposed to supervise the scale of bank lending to individual companies, did not sound earlier.

Separately, Mr Vincenzo Visco, deputy chairman of the finance committee of the upper house of parliament, strongly criticised the rescue operation being mounted by Mediobanca and the other leading bank creditors.

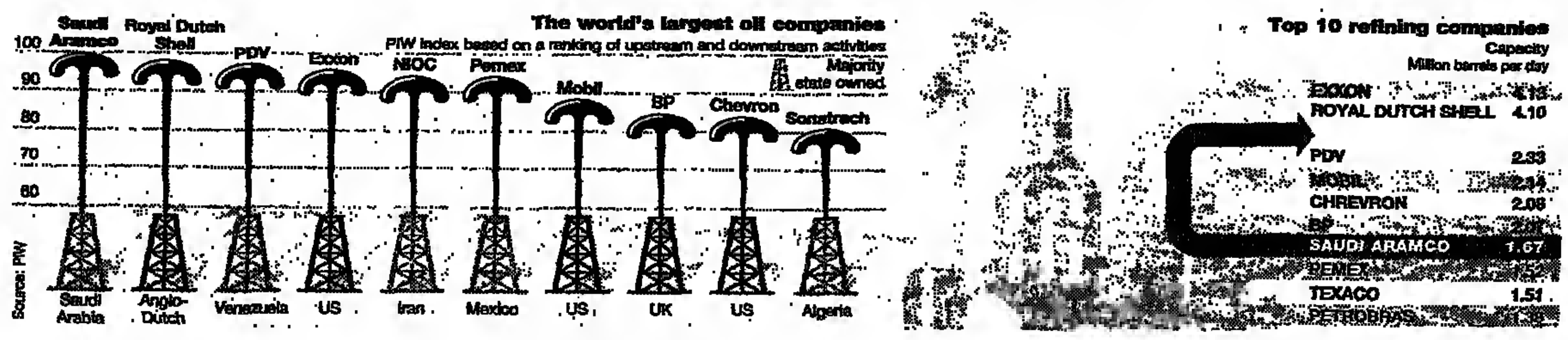
Mr Visco, briefly finance minister in the new Ciampi government, drew attention to the use of public sector banks to rescue a private company.

Other critics of the lifeline have pointed to the possibility of public sector banks swapping loans to Ferruzzi for equity – potentially nationalising the company at a time when Italy is supposed to be privatising its state-controlled banking sector.

The attacks came during another day of sharp falls for shares in Ferruzzi Finanziaria (Ferfin) the main holding company, and its subsidiaries. Ferfin stock plunged a further 16.6 per cent to L494.8 from L593.5, while shares in Montedison, the main industrial subsidiary, dropped to L750, a cumulative fall of more than 23 per cent since Friday's close.

Investors showed their hostility to this week's surprise rights issue by Fondiaria, the Ferruzzi-controlled insurance group, by marking its shares down almost 8 per cent to L22,201. Fondiaria stock has now tumbled by more than 17 per cent since the deal was announced late on Monday.

The precipitous falls – and the fact that many of Ferruzzi's operations are backed by attractive industrial assets – has not yet triggered any bargain hunting, although prices recovered somewhat in after-hours trading. This is partly due to widespread cynicism towards Mediobanca, with its reputation for ignoring minority investors, and continued silence about the rescue plans.



Deborah Hargreaves and Mark Nicholson report on Saudi Arabia's big oil deal

Merger unleashes new powerhouse

The merger of Saudi Arabia's two main state-owned oil companies, Aramco and Samarec, will create an international powerhousa in the world oil industry.

The deal, announced by the Saudi government on Monday, creates the world's largest integrated oil company and an important competitor for multinational energy businesses such as Royal Dutch/Shell and Exxon.

While Saudi Aramco has long been the world's largest oil producer, the addition of Samarec's refining and marketing interests will put a sharper focus on the kingdom's downstream ambitions, particularly overseas.

The merger will make Saudi Aramco the world's third largest refining company, behind Exxon and Shell, moving up from seventh place. Joint capacity will run to 3.9m barrels per day.

The Saudi merger is evidence of a trend among state-owned national oil companies to create fully integrated concerns operating in all parts of the oil business. State-owned companies from the Organisation of Petroleum Exporting Countries have played a growing role on the world stage as they have looked to channel investment into markats closer to consumars. But while tbey have the raw oil power to take on the majors, they often lack the financial muscle and technical expertise of the privately beld multinationals.

Their lack of marketing knowhow has forced them, in the past, to turn to partnerships with the majors in areas sucb as refining, although they are well placed to compete bead to head on production. Their current eagerness to secure outlets for their crude in markets close to consumers may lead them to buy into existing ventures run by the majors.

Mr Peter Bogin, at the oil consulting group, Cambridge Energy Researcb Associates, suggests there is a growing trend towards partnerships between the state-owned companies and tbe oil majors sucb as Shell and Exxon.

Enormous challenge in combining the two large companies effectively

For example, Aramco has been involved in a joint venture with Texaco in the US for three years – the Star venture includes jointly running two oil refineries and operating a chain of petrol stations in the mid-western and south eastern states. It also has a refining venture with Ssangyong in South Korea. And Aramco still has close links with its four original American owners, Exxon, Texaco, Chevron and Mobil.

In addition, Saudi Aramco has for some time been looking for a refining foothold in Japan and Europe as a way of securing outlets for its crude. It has a preliminary agreement with Nippon Oil for a feasibility study and is exploring a possible joint venture deal in Europe.

Saudi Arabia has in turn opened its borders to joint-venture refineries for export. Aramco is involved with Mobil at Yanbu and Shell at Jubail.

Saudi Arabia, Kuwait and Venezuela have led the drive to expand outsida their own countries. Oman and Libya have also been extremely active.

But Mr Robert Mabro, director of the Oxford Institute for Energy Studies is sceptical that the state-owned companies will take on the majors on tbeir own turf. "Will they emerge as competitors to the majors by following similar policies – I doubt it." He points to the fact that few companies from Opec have started exploring for oil outside their own borders. "These companies, including Aramco, are going to take a long time to build up market share outside their own countries and I don't think the majors have much to fear for some time," he said.

Sandi officials said this week that while the merger would give greater "dynamism" to Aramco, it would not necessarily accelerate its expansion overseas. "We will not stop being patient," said one official in Riyadh.

The integration of the two companies should, however, streamline the decision-making process, enabling the new group to respond more quickly to market opportunities. Many industry observers point to the enormous challenge facing the kingdom in combining the two large companies effectively. The complexity of the task might slow down its international ambitions in tbe short term. "It is a challenging step for Saudi Arabia, but it will eventually give the joint company a clearer and more transparent strategy in its international moves," said Mr Joe Stanislaw at Cambridge Energy.

Merger part of a trend among state-owned national oil companies

The shape of the merged company will be decided over several months by a taskforce set np yesterday and beaded by Mr Ali Naimi, Saudi Aramco's executive vice president for industrial relations. One of the prime goals of the merger is to give Samarec's activities the benefit of what is generally considered to be Aramco's stronger and more experienced management.

In part it is a question of management style. "In Jeddah, with Samarec, it's a question of coffee, tea and long discussions round ornate brass tables, while in Dhahran with Aramco it's shirt-sleeves, styrofome cups and 'let's get down to business'," said one Riyadh industry observer.

But the amalgamation is also expected to have a direct effect on streamlining the merged company's operations. Saudi officials suggested, for instance, that training, marketing, accounting and finance for the combined operation are all likely to be managed within the existing Aramco structure.

Opec's state-owned oil operators acquired the expertise to perform on the world stage since they were nationalised in the late 1970s. But low oil prices have left some companies strapped for cash, forcing them to team up with other operators. In addition, many still want to gain access to western technology through joint ventures and partnerships.

Daimler Benz sees profits recovery

By David Waller in Stuttgart

DAIMLER-BENZ, Germany's largest industrial company, is on course for a profits recovery next year, the group's finance director said yesterday.

Mr Gerhard Liener said next year's profits could be twice as high as in the current year. This means a figure of around DM2bn ($1.25bn) after an expected DM1bn this year and DM1.45bn last year.

The prediction will surprise analysts, who have reduced their forecasts after the group's dire first-quarter figures. Last month Daimler announced net profits of just DM20m, down from DM480m in the first quarter of last year. Mr Liener's optimism is based on high expectations for the group's Mercedes-Benz luxury car subsidiary, which this week launched its C-Class executive car, the successor to the 190-Series.

Combined with the impact of cost-cutting measures across the group, the effect would be a "fundamental improvement" in Daimler's profitability from 1994. He said the benefits would feed through early enough to ensure the group made about DM1bn net profit this year.

"The C-Class is a great success story," said Mr Liener. "It was only this week that the model was presented to the German public and I can already predict that every C-Class car we produce this year will be sold without having to grant any discount."

This year's production target for the new model was 120,000 units, Mr Liener said, rising to 240,000 next year.

Mr Liener said that by the middle of 1994, the group would have cut 40,000 jobs, approximately 10 per cent of the workforce. The DM3bn-DM4bn cost of these measures would be booked against current-year profits. Annual savings from 1994 onwards would be of the same order.

He predicted the severity of the German recession would have abated by next year, partly due to lower interest rates. A strengthening of the US dollar against the D-Mark could also help group exports later this year. Scepticism about Daimler's profit outlook has caused its share price to fall from a high this year of DM628.50 to DM602.4. Present expectations for next year's profits range from DM1.1bn to DM1.4bn.

SE-Banken to look to shareholders for capital

By Hugh Carnegy in Stockholm

THE SWEDISH government and Skandinaviska Enskilda Banken, the country's leading commercial bank, yesterday agreed that the first step towards recapitalising the loss-hit group should be a call on its shareholders.

The joint statement said that "the bank's capital base should in the first place be strengthened by additional contributions from the owners of the bank". It added that SE-Banken would "analyse the prerequisites for an issue of new shares" over the summer, but gave no details of the scope of such an issue.

SE-Banken applied for state support late last year but tha two sides said a conclusion on govarnment aid would not be reached until "tbe August-September period".

SE-Banken's senior sbarebolder is the Wallenberg family, which holds around 7 per cent.

The announcement confirmed that recent improvements in SE-Banken's operating conditions had removed any urgent need for state support, originally sought because the bank was in danger of falling below the international capital ratio minimum of 8 per cent.

However, with non-performing loans totalling about SKr25bn ($3.4bn) and heavy losses expected this year after the SKr5.4bn operating loss in 1992, it remains unclear to what extent the state will need to provide aid beyond February's broad guarantee to honour the bank's commitments.

In recent weeks, SE-Banken shares have risen sharply on speculation that direct government aid might not be required. This followed publication of the first-quarter results, which showed a 55 per cent cut in operating losses, thanks to improved operating profits before loan losses. Yesterday, the most traded A shares closed at SKr38, up more than five times since April.

Mr Björn Svedberg, chief executive, acknowledged that the rising stock price, falling interest rates, a strengthening of the Swedish krona and better underlying performance had improved SE-Banken's position. But he warned "substantial risk" still attached to loan losses which have come mainly from the property sector.

The government, which has already laid out SKr74bn in aid to the banking sector, would like SE-Banken to earn its way ont of trouble.

American Cyanamid in plan to buy Shell agrochemicals business

By Paul Abrahams in London

SHELL, the Anglo-Dutch group, plans to sell its agrochemicals business to American Cyanamid of the US.

The deal, the latest in a series in the $27bn-a-year indnstry, would propel the US group from tenth to sixth in the world agrochemicals league. The combined operation would bave sales of abont $2bn, althongh about $300m of American Cyanamid's operations are in animal health and nutrition.

Sbell's bnsiness, employing 2,200, generated sales last year of about $700m. "The multiples in agrochemicals are less than they were a couple of years ago. Given that half of Shell's sales are third party prodncts, we think the exit multiple won't be mucb more than one," said Mr John McDougall at Wood Mackenzie.

The deal is part of a broader rationalisation of a sector involving fungicides, pesticides and insecticides, thongh not fertilisers. The EC market shrank by between 10 and 13 per cent last year after reforms of the common agricultural policy.

In May Schering, the German bioscience group, revealed it was negotiating the possible merger of its agrochemicals operations with Hoechst, the German chemicals giant. Rhône-Poulenc of France has forged links with Sumitomo of Japan. American Cyanamid said the two businesses formed a perfect fit geographically and in products. Its operations were mainly in the US, herbicides for soyabeans and soil insecticides. Shell's business was more international and sold fungicides and leaf insecticides.

The US concern is repositioning itself as a bioscience group. Two years ago it sold its consumer prodncts business and earlier this year announced a plan to spin-off its $1bn chemicals business. Shell said its business had not generated a satisfactory return. The operations needed to be larger to cover the costs of developing a stream of new products.

London exchange reviews plan for sale of BT shares

By Norma Cohen, Investments Correspondent

THE London Stock Exchange is preparing to back down on a scheme under which market makers in shares of British Telecom would only publicly display dealing prices for those who wished to deal for cash settlement.

The move follows an internal review of the matter within the stock exchange. The exchange is believed to have been concerned about some of the technical aspects of the arrangement, which is unprecedented. There is also concern that its actions may inadvertently lead to the creation of a false market in BT shares.

A stock exchange canvas of the 18 registered market makers in BT shares showed that the vast majority favoured the move. However, some institutional investors have registered alarm.

It emerged yesterday that the National Association of Pension Funds, the UK's largest shareholder group, is opposed to the move. Mr John Rogers of the NAPF said: "We are seeking clarification and expressing the concern of our members to the chairman of the stock exchange."

The stock exchange, following a request from S.G. Warburg, global co-ordinator in the sale of the third tranche of the government's stake in BT, had earlier asked market makers whether they wanted the stock exchange to recommend that all deals be for cash settlement. The move was intended to help quickly discover who had bought or sold BT shares.

Dealings for cash settlement are known within 48 hours while account settlement takes two weeks. If account settlement prevailed, Warburg, which has said it intends to award higher allocations to those with larger BT stakes, could be generous to those who had in fact just dumped shares prior to the allocation date.

Transport group may change its forecasts

By Angus Foster in London

THE UK transport and logistics company NFC, an experiment in popular capitalism since its 1982 employee-led buy-out from the government, is considering ending its unique practice of giving "best view" forecasts of profits.

The practice was developed to keep shareholder employees informed before the company was listed. It is under review because of changing rules about communicating information to shareholders.

Tha company is also concerned about possible legal challenges in the US if it failed to meet "best view" forecasts.

NFC yesterday reported pre-tax profits more than doubled to £86.6m ($133.4m) in the 28 weeks to April 17, slightly below expectations. The company is sticking to its earlier "best view" estimate for this year of £95m to £100m, excluding exceptional gains.

Lex, Page 12;
Background, Page 19

Granada improves to £68.1m at mid-term

By Raymond Snoddy in London

GRANADA, the UK laisure, television and computer services group made it clear it was in an expansionist mood yesterday as it unveiled pre-tax profits of £68.1m ($104.9m) for the 26 weeks to the end of March.

The profit figure on a near static turnover of £640m represented an underlying rise of 28 per cent – 72 per cent as restated under new accountancy rules.

Mr Gerry Robinson, Granada chief executive, made it clear that following the £360m acquisition of Sutcliffes, the catering and laundry business, the company wanted to be a strong contender for running the UK's planned National Lottery.

The company confirmed it would be bidding in a consortium to run the lottery.

At the same time, Mr Robinson made it clear that if the government relaxed the rules preventing the nine largest ITV companies taking each other over, Granada would be in the market.

"There is absolutely no way we will sell Granada Television. Granada TV is absolutely at the heart of our business," said Mr Robinson who on Monday represented the group at the National Heritage department when ownership rules were considered.

All the main Granada business improved their operating profits without what Mr Alex Bernstein, the Granada chairman described as "any apparent improvement in consumer spending".

Granada's rental business had operating profits of £50m, an increase of 6 per cent and television profits rose to £21m from £18m, a rise of 19 per cent.

Leisure increased profits to £8m from £3m. Computer services was largely unchanged – £4m compared to £3.7m last time.

Underlying earnings per share grew to 9.8p an increase of 40 per cent and there was a 10 per cent rise in net dividend per share to 3.025p up from 2.75p last time.

Mr Robinson said Granada had not reached the end of growth.

"We have a long way to go. We will see these kind of improvements continuing into the second half," he added.

Mr Bruce Jones, leisure analyst at Smith New Court, City stockbrokers yasterday increased his forecast for the full year to £173m from about £165m.

He said Granada could move on to pre-tax profits of £210m next year.

Lex, Page 12

Kühne & Nagel income advances to SFr38.6m

By Ian Rodger in Zurich

KUHNE & Nagel, the private Swiss-based forwarding group, said consolidated net income last year nearly doubled to a record SFr38.6m ($27.6m), but it anticipated a flat performance this year.

The group, in which Lonhro sold a 50 per cent stake for DM340m ($212m) last year, said the remarkably strong result was due to the elimination of special spending, a considerable improvement in the business structure and profitability of its west European countries and the consolidation of its position in North America and Asia Pacific.

Mr Klaus-Michael Kühne, the chairman, said at the group's annual press conference that the first four months of the current year were above budget but trading conditions were deteriorating and he was sceptical abont further profit growth in the full year.

Mr Kühne said the group was planning a public flotation of about 15 per cent of its shares in the middle of next year. He had no heirs and wanted to provide for an orderly succession when be retired in about 10 years.

Consolidated turnover advanced 1 per cent to SFr4.89bn last year, and gross profit was up 4.8 per cent to SFr789m.

Ocean and air freight each accounted for 23 per cent of the profit with overland traffic and logistics bringing in 43 per cent.

KOP slips as loan losses increase

By Hugh Carnegy

KANSALLIS-Osake-Pankki, Finland's leading commercial bank, has reported a group loss before taxes and provisions of FM626m ($116m) in the first four months as loan losses grew to FM933m. But the bank said it still intended to achieve its target this year of halving its FM3.7bn 1992 loss.

The figures showed a sharp deterioration compared with the same period in 1992, when losses were FM527m.

However, KOP said the results were not directly comparable because the 1992 figures did not include the acquisition late last year of STS-Bank and because the one third share of full-year loan losses then estimated at FM728m fell well short of the actual FM1.42bn.

The estimated full loan loss figure for 1993 is FM2.8bn, compared with FM4.27bn in 1992. Mr Pertti Voutilainen, chairman, said the goal of cutting the 1992 overall loss in half this year was "a demanding target, but our recent performance suggests that it is not beyond reach".

The portfolio of non-performing loans held by KOP grew to FM8.2bn at the end of April from FM7.1bn at the end of 1992 – in spite of the exclusion of FM2.8bn in non-performing loans in a STS-Bank unit for which the government has assumed 90 per cent of the risk.

However, Mr Voutilainen said non-parforming loans appeared to be reaching a plateau.

"The improvement in tha bank's performance in the current year is based largely on this assumption," he added.

In an indirect but sharp criticism of the state's injection of more than FM18bn into Skopbank, the country's third largest bank, to keep it afloat, Mr Voutilainen, said fair competition within the system was being distorted by such "massive" intervention.

KOP has taken up FM1.7bn in preferred capital from the government, bnt has raised FM1bn in a rights issue end is raising a further FM800m in a subordinated loan issue.

It plans a similar loan issue later this year to bolster its capital base. At the end of April its capital adequacy ratio was 9.2 per cent on BIS calculations, above the 8 per cent requirement. In the first four months, group profit from financial operations after depreciation rose 3 per cent to FM686m compared to the previous year.

Whirlpool Europe sells refrigerator plant

By Andrew Baxter in London

WHIRLPOOL Europe, part of the big US white goods gronp, has agreed to sell its Barcelona refrigerator plant to IAR/Siltal, the fast-growing Italian commercial refrigeration and domestic appliances group.

Financial terms were not disclosed, but the deal is significant for both companies. Whirlpool Europe said it reflected implementation of a strategy to rationalise industrial operations to meet customer needs.

The Barcelona plant produces 130,000 units a year with 270 employees, and was considered too small to fit Whirlpool's philosophy of large-scale, highly automated manufacture. Whirlpool Europe said this was its first such deal, but others were not excluded.

The US-owned company said it had received more attractive offers for the plant, but the deal with IAR/Siltal ensured continuity of operation.

IAR/Siltal will acquire full ownership of the plant at the end of July. It will sell part of its output to Whirlpool for distribution in Spain and elsewhere in Europe under a four-year supply contract.

The deal represents a big foreign expansion for IAR/Siltal, which has annual revenues of L240bn ($162m), employs 1,100 people and operates four plants in Italy. Based near Alessandria, it grew fast in the late 1980s through acquisitions.

The Italian company said it expected to increase the Barcelona plant's capacity with additional production lines with technology assistance provided by Whirlpool Europe.

US tobacco trader expands in Hungary

By Nicholas Denton in Budapest

UNIVERSAL Leaf Tobacco, the US tobacco trader and processor, is to take over Nyidofer, Hungary's dominant supplier of tobacco.

Universal's offar involves the acquisition of a 76 per cent shareholding, an immediate capital increase, a subsequent injection and substantial support for hard-pressed Hungarian tobacco growers.

Investment including commitments would amount to about Ft2bn ($22m), Hungary's State Property Agency privatisation authority said.

Universal faced politically strong domestic bidders for Nyidofer and the sale was a test of attitudes towards western investors.

NEWS IN BRIEF

COFINOGA, the credit card unit of Galeries Lafayette, has taken 20 per cent in Sodira, a company controlled by France Telecom which is a service provider in France for a new pan-European digital mobile phone service, Reuter reports from Paris.

Insurance group Europ Assistance has also taken 5 per cent of Sodira, the companies said.

France Telecom, France's national phone company, is one of two operators in France launching digital cellphone networks which allow users to use their phone anywhere in Europe. Its service, Itineris, began early this year and is marketed through 11 service companies of which Sodira is one.

A commercial accord reached between the partners provides for Galeries Lafayette and Bazaar de l'Hotel de Ville to sell subscriptions only for Sodira's mobile phone services, called Cellway.

The rival French operator in the European digital cellphone market, Société Française du Radiotéléphonie, a unit of Générale des Eaux, launched its service in April.

A subscription to Cellway costs FFr360 ($66.79) a month after a connection fee of FFr350, with a variety of possible extra charges for things such as changing a number, replacing a lost telephonecard or paying bills other than by direct debit.

Cellway also offers a service through which a subscriber can get travel information, reserve hotels or flights or find telephone numbers, for no extra charge.

SFR set a subscription level of FFr315 francs a month with an initial connection fee of FFr350.

● KARSTADT, Germany's largest department store group, sees difficulties in maintaining its earning levels at the previous year's levels because of the country's recession, Reuter reports from Essen.

"Despite the unfavourable (economic) environment, we are confident we will achieve satisfactory results again in 1993, although it will be difficult to reach the previous year's levels," Karstadt said in its 1992 annual report.

In 1992, Karstadt's group net profit fell to DM224.1m ($140m) from DM257m the previous year, while group third-party sales climbed to DM20.6bn from DM19.1bn. Karstadt planned to continue to focus on department stores, mail order houses and tourism in the future, although it would create new stores for glasses called "Optik Point".

"The development of our company and its considerable potential make it clear that we remain on a successful path with concentration on our three main businesses," he said.

Of the group's 1992 sales including tourism turnover, which totalled DM21bn, department store sales accounted for 61.7 per cent, mail order sales for 16.32 per cent, service turnover for 19.16 per cent and wholesale turnover for 2.79 per cent.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 11.06.93: Pool purchase price £/MWh	Firm Prices for Trading on 20.05.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.09	23.39	26.62
0100	18.09	23.39	26.57
0130	18.09	23.39	26.60
0200	18.09	28.79	32.26
0230	18.09	28.79	32.24
0300	18.09	19.50	19.50
0330	18.09	19.00	19.00
0400	18.09	18.69	18.69
0430	18.09	18.69	18.69
0500	18.09	18.69	18.69
0530	18.07	18.69	18.69
0600	18.07	18.69	18.68
0630	18.07	18.70	18.70
0700	25.65	24.43	27.63
0730	25.56	25.62	28.81
0800	25.63	26.51	29.73
0830	25.79	28.47	31.77
0900	27.82	29.38	32.77
0930	29.68	34.71	38.29
1000	29.79	34.78	38.34
1030	28.63	28.96	32.30
1100	29.99	28.08	31.39
1130	34.28	28.32	31.66
1200	34.87	34.52	38.17
1230	34.12	34.39	38.03
1300	29.70	33.95	37.44
1330	27.86	27.02	30.12
1400	26.28	28.90	29.97
1430	26.21	25.92	28.97
1500	26.19	25.91	28.95
1530	26.20	25.92	28.95
1600	26.32	25.96	29.03
1630	31.85	34.24	37.45
1700	34.39	34.25	37.48
1730	34.23	34.17	37.47
1800	31.51	34.07	37.36
1830	25.56	25.63	28.80
1900	25.55	25.57	28.63
1930	25.55	25.11	28.17
2000	25.55	25.07	28.13
2030	25.11	25.07	28.13
2100	44.09	25.07	28.13
2130	44.09	36.00	39.41
2200	36.21	36.00	39.39
2230	39.21	36.00	39.31
2300	34.00	24.80	27.85
2330	20.50	24.43	27.54
2400	18.46	23.77	26.88

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

Bank of Montreal plans to expand presence in US

By Bernard Simon in Toronto and Laurie Morse in Chicago

BANK of Montreal, Canada's third biggest bank, plans to broaden its presence in the US by launching an expansion and acquisition drive through its Chicago-based subsidiary, Harris Bankcorp.

BoM yesterday named Mr Alan McNally, vice-chairman for personal and commercial banking, as Harris's new chief executive. He replaces Mr Kenneth West, who has been chief executive since BoM bought Harris nine years ago.

Mr McNally will have a mandate to triple Harris's branch network and assets, currently almost US$13bn, within the next 10 years. Harris will focus efforts on Illinois, as well as other surrounding states, including Michigan and Ohio.

Ms Linda Stromberg, an analyst at Howe Barnes in Chicago, described Harris as a "sleepy, conservative" institution, which has so far failed to capitalise on the gradual easing of Illinois' curbs on branch banking.

These curbs have left the state with a highly fragmented banking industry, with about 1,200 separate institutions.

Ms Stromberg predicts a rash of mergers and consolidations over the next few months. Some powerful regional banks based in nearby states have also signalled an interest in the Illinois market.

Harris is the third biggest downtown Chicago bank, after First Chicago and Continental Illinois. One of its smaller rivals, LaSalle, was bought by ABN-Amro of the Netherlands in 1989. Since then, LaSalle has acquired a number of savings and loan institutions which it has turned into bank branches.

Bank of Montreal, with assets of C$109bn (US$85.8bn), set a target in 1990 of boosting the contribution of US business to 50 per cent of earnings. But the US component has so far remained little changed at around 25-26 per cent.

BoM also announced a reorganisation yesterday which would bring its US and Canadian corporate and investment banking business under a single North American umbrella. The bank will in future be divided into four divisions.

Besides North American corporate and investment banking, the new units will comprise BoM's core retail and small-business operations in Canada, and similar operations of Harris in the US.

Hewlett-Packard stock falls on report of setback in growth

By Louise Kehoe in San Francisco

SHARES in Hewlett-Packard, the US computer and electronics group, fell sharply yesterday when Mr Lewis Platt, the company's president and chief executive, was reported by Reuters to have said that the company expects slower order and revenue growth in the second half of the year.

HP officials said, however, the remarks, made yesterday during a meeting with bankers and analysts in Frankfurt had been misinterpreted.

HP's share price dropped $7.50 to $79.50 in heavy early trading, but had recovered to $80.50 by mid-day.

Reuters reported that Mr Platt said: "We do not project that the second half will be like the first half. Sustaining orders and revenue growth rates will be quite unlikely."

However, HP officials in the US denied that Mr Platt had commented on potential revenue growth in the second quarter and said that on the subject of order growth he had reiterated remarks first delivered by Mr Robert Wayman, chief financial officer, during a meeting with analysts in New York last month.

"We feel very good about where we stand today. Our order growth is accelerating, our backlogs are healthy, and we are getting more balanced results from our different businesses and geographies," Mr Wayman said.

Last month HP reported revenues of $9.7bn for the first half of the financial year, up 20 per cent from $8.1bn in the first half a year ago. Net income for the six months was $608m, up from $293m.

Good times keep rolling for junk bonds

Patrick Harverson reports on the market's insatiable appetite for high-yield debt

So far this year $23.7bn in new high-yield debt – junk bonds – has been issued in the US, putting the market on course to smash last year's record-breaking $38bn total.

Although the mid-to-late 1980s are traditionally regarded as the heyday of junk bonds, the volume of high-yield debt coming to the market over the past 18 months has far exceeded anything seen when Mr Michael Milken, the one-time junk bond king of Drexel Burnham Lambert, was at the height of his powers.

Companies have been queueing up to issue junk bonds and investors have been eager to buy them, rushing to get into high-yield debt because the returns have been so rewarding. In the past 18 months high-yield securities have outperformed most other leading asset groups.

Merrill Lynch, the Wall Street securities house, says that its master index of high-yield debt achieved a total return of 18.2 per cent in 1992. In comparison, the Standard & Poors' 500 index of leading US stocks returned 7.6 per cent last year, and 10-year US government securities returned 6.5 per cent.

Junk bonds are also outstripping the opposition this year. In the first five months of 1993 Merrill's high-yield index posted a return of 8.4 per cent, against 4.5 per cent for the S&P 500 and 6.1 per cent for 10-year government securities.

The huge volume coming to the market has inevitably raised questions about how long the boom in junk bonds can last. And if the boom does end, will the market come crashing down as it did at the end of the 1980s?

Fears of a sharp downward correction have intensified in recent months because of the pace of new issuance, and the willingness of investors to buy higher-risk debt from companies with very low debt ratings. At the same time, concern has grown that interest rates may be heading higher if the Federal Reserve is forced to tighten monetary policy to curb inflation.

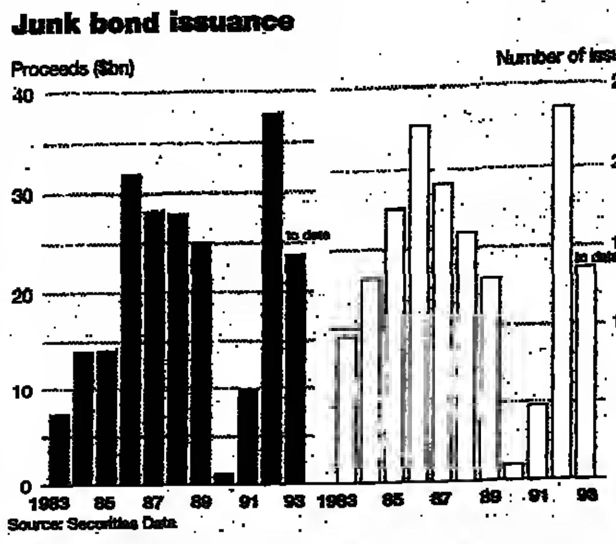
Rising interest rates would make junk bonds look less attractive compared with other assets, and if a number of low-rated issuers were to start defaulting on their paper because of the poor state of the economy, investors might stampede out of junk and into more secure assets, triggering a collapse in the high-yield market.

This may be the worst-case scenario, but it has escaped no one's notice that similar conditions existed prior to the collapse in junk bond values at the end of the 1980s.

Yet, Wall Street remains upbeat about the outlook for the junk bond market – which is not surprising, because securities firms and investment banks earn huge fees underwriting and selling high-yield debt.

Much depends on the direction of interest rates. The key factor behind the boom in junk bonds has been the sharp decline in US interest rates over the past two years. To maintain their income stream, yield-sensitive investors were forced by falling rates to buy either longer-dated investment-grade debt, higher-yielding junk bonds, or stocks. Of the three categories, junk bonds benefited most from the huge inflows of investor cash.

Junk bond issuance



Source: Securities Data

If the short-term rates rise, however, those inflows to the high-yield markat will certainly slow, warns Mr Martin Fridson, head of high-yield research at Merrill Lynch. And if investors' appetite for high-yield debt shrinks, the number of companies issuing high-yield securities would also fall. How far and fast the market tumbles depends upon how far and fast interest rates rise.

He believes that as long as any rise in short-term interest rates is modest, a dramatic slump in the high-yield market is unlikely.

The only event that could shatter the junk boom would have to be so calamitous that it would probably wreak havoc on other asset groups as well.

Mr Fridson is optimistic, however. He says. "I don't see anything out there that would cause the high-yield market to collapse that would not also affect equity and long-term bond markets." An analyst at another big Wall Street firm says the same thing: "I don't see a reason, unique to the market, for a pull-back."

Most analysts do not believe that comparisons between the current market and 1989 are valid. Four years ago one of the key problems was the growing share of the market taken up by relatively small (under $100m) issues of very low-rated debt – the category of debt that is the least liquid and the most likely to default.

Although more small, low-rated issues have been coming to the market in the past year, Mr Fridson says this is not particularly worrying, because what matters is not the absolute number of low-rated small issues, but their dollar share of the overall market, which is still low by historical standards.

Between 1987 and 1988, 60 per cent of the junk market was taken up by the high-risk category of low-rated debt issues. Last year, that share was only 15 per cent, and in the first five months of this year it has fallen further to 10 per cent.

The number of high-risk issues may have been rising, but they have been far outnumbered by the volume of better-quality debt coming to the market, says Mr Fridson. "Overall, this is still a pretty conservative market."

Ms Diane Vazza, director of high-yield research at the ratings agency Standard & Poors, agrees. She says that credit quality has improved considerably over the past two years and the recent surge in small, first-time issuers has done little to undermine that improvement.

Also, for the junk bond market to collapse, issuers would have to start defaulting on their debt. Yet, default rates are currently running at low levels. The rate peaked in 1991 when 10.7 per cent of high-yield issues defaulted. By last year, however, it had fallen to 5.9 per cent.

This year, the market looks even more stable, says Ms Vazza. In the first five months of 1993 there have been only four defaults of high-yield corporate debt, representing $300m of a market total of $200bn.

Ms Vazza says: "We expect the default rate this year to be down dramatically from 1992."

Shares in USAir slide following forecast of shortfall for year

By Nikki Tait in New York

SHARES in USAir, the US airline in which British Airways holds a minority stake, fell $1⅞ to $17 yesterday after the Arlington-based carrier said that it expects to make an after-tax loss this year.

USAir said: "In addition, based on results of operations for the months of April and May and a projection of June results, the company, which had expected to be profitable in the second quarter, currently anticipates that it will sustain a net loss for the quarter".

USAir stressed the results for both the full year and the second quarter should show an improvement over those recorded in 1992. But it said the shortfall over previous expectations stemmed from sluggish revenue growth – which it blames on the general economic conditions.

"Management has taken a number of steps recently to stimulate traffic and generate increased revenues, including reducing leisure fares in certain short-haul markets, and will be reviewing further measures to enhance revenues and reduce costs," said Mr Seth Schofield, USAir chairman.

USAir managed to make a $2m operating profit in the first three months of 1993, although its significant interest charges meant that this translated into an after-tax loss of $61m – down from an underlying $110.2m deficit in the same period of 1992.

Last year, its after-tax loss was $1.2bn, although the deficit was inflated by a number of extraordinary items. The adjusted operating loss stood at $166.4m, down from $219.4m in 1991.

Tiffany takes control in Japan

By Nikki Tait in New York and Emiko Terazono in Tokyo

TIFFANY, the New York-based jewellers, is taking over management and marketing responsibility for 29 Tiffany boutiques in Japan, currently operated by Mitsukoshi, the country's leading department store.

Mitsukoshi accounts for more than 90 per cent of Tiffany's sales in Japan. The move will give the US group greater flexibility to distribute its products to other Japanese retailers. Mitsukoshi owns 14 per cent of Tiffany.

The decision will also relieve Mitsukoshi's mounting inventory of Tiffany products, which have been hit by the sharp fall in Japan's consumer demand for luxury goods.

As a result, Tiffany will take an after-tax charge of about $32.7m against its second-quarter earnings.

Tiffany said that the charge stemmed from a $57.5m prodnct return reserve which it had established as result of its decision to repurchase most of the Mitsukoshi's Tiffany stocks over the next four years.

Under the new arrangement, Tiffany will provide the merchandising and management expertise for the 29 boutiques, while Mitsukoshi continues to provide and maintain the locations and staffing. Tiffany previously sold the merchandise on a wholesale basis to Mitsukoshi.

The two companies have also agreed to set up a new marketing operation to look over marketing and promotion planning for sales of Tiffany products in Japan.

Tiffany and Mitsukoshi's relationship started in 1972, with the Japanese group establishing Tiffany boutiques in its upmarket department stores. Tiffany's shipments to Mitsukoshi, however, were treated as wholesale trada sales, with a lower mark-up than traditional sales.

'Warehouse clubs' plan merger deal

By Nikki Tait

PRICE Company, which devised the "warehouse club" retail concept in the US, and Costco, another of tha "big five" club operators, announced yesterday that they plan to merge.

The deal will create a company with 195 membership warehouse – huge out-of-town retail barns, which sell merchandise at rock-bottom prices – in three countries. Its annual sales will stand at around $16bn.

Both companies have recently disclosed plans to open warehouse club outlets in the UK – with Price Club setting up a joint venture with Littlewoods.

Under the merger deal, shares in the new company – to be called Price/Costco – will be issued on the basis of 2.13 shares for each Price Company share, and one share for each Costco share. Price Company shareholdars will end up owning about 48 per cent of the new merged group, while Costco shareholders, who include France's Carrefour, will have 52 per cent.

The warehouse club movement has been one of the most dynamic element in the US retail sector in the recent years, and 1992 sales have been estimated at about $33bn.

More shares in Hollinger to be floated

By Bernard Simon in Toronto

MR Conrad Black and his associates are making more shares in Hollinger, the Canadian holding company for Mr Black's international publishing interests, available to the pnblic.

Argus Corporation, a company controlled by Mr Black, plans to sell np to 2.5m Hollinger common shares to the public, starting on June 22. The shares, 4.6 per cent of Hollinger's 54.5m outstanding shares, will be sold through BBN James Capel of Toronto.

Argus is controlled by Ravelston Corp, a private company owned by Mr Black and a handful of business associates. Ravelston presently owns 47.5 per cent of Hollinger.

Mr Black and other Hollinger employees have separately converted options in the form of preferred shares into 1.1m Hollinger common shares. The bulk of these shares are expected to be sold into the market.

At Hollinger's current share price of C$13.13, Argus will raise about C$33m (US$25.9m) from its share sale. It said the proceeds would be used to repay debt "in furtherance of the objective of both Argus and Hollinger to reduce debt".

● Moody's Investors Services has confirmed its ratings of Seagram's US$3bn senior and subordinated debt at single A2 and A3 following the group's purchase of 5.7 per cent of Time Warner for $700m.

While Seagram carries its 24 per cent holding in Du Pont, the chemicale and energy giant, at $3.3bn, the market value is $8.4bn and well above "the $5bn debt Seagram might have to carry if it raised its Time Warner holding to 15 per cent". said Moody's.

Seagram has the liquidity to provide ample financial flexibility to carry the cost of an expanded Time Warner position despite the minimal dividends likely to be received, Moody'e added.

INTERNATIONAL COMPANIES AND FINANCE

MCI gains more firepower in telecoms war

BT deal is probably the most important in the US group's history, says Martin Dickson

BOLD, brash MCI Communications, where revenues have grown from $500m a decade ago to $10bn today, has never been shy about trumpeting its merits.

"The meek may inherit the earth, but they will not take market share," was one of the watchwords of the late Mr Bill McGowan, the chairman who masterminded MCI's growth into the second-largest US long-distance telecommunications company.

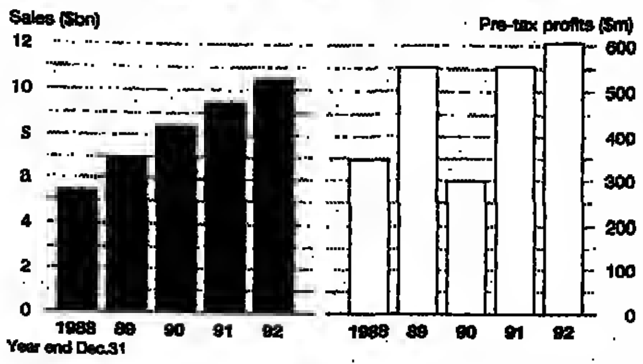
So when the soft-spoken Mr Bert Roberts, MCI's current chairman, describes this month's tie-up with British Telecom as the "telecommunications deal of the century" there is a touch of hyperbole about his remarks.

Yet for MCI, the agreement with BT is probably the single most important deal in its 25-year history. The two companies agreed to form a joint venture to provide global communications services to multinational companies, while BT is also to pay $64 a share to taka a 20 per cent stake in MCI for $4.3bn.

The deal gives MCI far greater clout in the fast-growing international market than it could have ever gained alone, and without diverting resources from its battle in tha US long-distance market against American Telephone & Telegraph, the much richer market leader.

BT's share purchase will also give MCI much greater financial flexibility to take advantage of the extraordinary upheaval taking place in the US, where technological and regulatory changes are pushing telephone, computer and cable television companies into new alliances to capitalise on an expected explosion of new communications services.

MCI Communications and Subsidiaries



The BT deal will cut MCI's debt as a percentage of total capital to between 20 per cent and 30 per cent, from its current level of around 52 per cent. This will give it borrowing potential which could raise its acquisitions war-chest to nearly $10bn.

How it deploys this firepower will affect not only MCI's future profitability but the return the UK company gets from its investment, given that BT is paying a pricey 25 times MCI's expected 1993 earnings per share (of around $2.55) and a 23 per cent premium to the US company's share price when the deal was struck.

So far, MCI has lagged its rivals in forming alliances. AT&T, for example, has an agreement to buy a 33 per cent stake in McCaw Cellular, the largest group in the fast-growing radio telephony market. MCI has no cellular interests and has not yet formed any ties with the cable TV industry, which could occupy a crucial position in delivering inter-active communications and entertainment services to the home.

However, Mr Roberts insists that MCI will become a force in wireless, local communications, multi-media and information services, and is at the centre of a web of discussions which include local telephone companies, cable operators and software houses.

While his first priority is to complete the BT deal, which will probably not be consummated until early 1994, he expects to form some important domestic alliances over the next 18 months.

Throughout its history, he adds, MCI has turned what others saw as weaknesses into opportunities and been a catalyst for change. It intends to do so again: "When there is chaos in an industry, when people are scrambling to align themselves with somebody, when you've got everyone fumbling around…for MCI that means opportunity," Mr Roberts says.

There is no disputing the company's track record in shaking up the US telecoms industry, which used to be a cosy monopoly run by AT&T until MCI emerged in the late 1960s and began challenging its stranglehold on the long-distance market.

Key turning points came in 1978, when a ruling in an MCI court case allowed full competition in the long-distance market, and in 1984, when the break-up of AT&T on anti-trust grounds ensured that alternative long-distance carriers, such as MCI, would be given equal access to the consumer by local phone companies.

MCI's revenues have doubled in the past five years, while its share of the long-distance market has risen to around 18 per cent, thanks in part to this much more level playing field, combined with surging demand for long-distance services and the company's particular strengths. These include a modern digital network, a lean operating structure, keen pricing and, above all, a flair for new product development and marketing.

For example, MCI's Friends and Family programme, which allows residential customers large discounts on calls to certain numbers, has grown in two years from nothing to more than 10m customers.

It is hoping for similar success in the small-to-medium business market with a programme called Proof Positive. This offers rebates to customers who have not employed the most cost-effective service package. MCI also calculates how much customers are saving compared with AT&T services.

MCI is also shaking up the US collect-call market, which it points out has been unchanged for 100 years, by offering what it claims are savings of up to 44 per cent of AT&T rates.

Such innovations, coupled with increasing penetration of the market for multinational customers, means MCI's traffic volume has been growing at around 15 per cent over the past two years, roughly double the industry average.

Analysts expect earnings per share increases of roughly the same size over the next two years as the US economy recovers, as MCI continues to improve operating margins and as long-distance carriers are required to pay less in "access charges" for local telephone companies to complete calls.

But this assumes that the marketing war between long-distance carriers does not intensify and that prices of calls, which are currently relatively stable, are not cut sharply in the battle for market share.

The BT deal could eventually give MCI's earnings an additional fillip. Although the joint venture is expected to lose money for the first two years, it should mean economies of scale in providing international services and cost-sharing in developing new software and other technology.

BT's global clout should also help MCI win a greater share of US-originated international calls, where it claims a market share of around 23 per cent, though only about 10 per cent of traffic originated by multinationals.

All these considerations have helped lift MCI's share price from $52 immediately before the BT deal was announced to around $55¾ now, and some analysts think the price could reach around $60 – close to the price BT paid – by the end of the year.

But this assumes wise use of the war-chest by MCI to secure domestic partners – and a lack of new alliances among rivals. In an industry as volatile as US telecommunications, those remain substantial question marks.

Dresdner Bank to open branch in Shanghai

By Tony Walker in Beijing

DRESDNER BANK will be the first German bank to establish a branch in China when it opens for business in Shanghai later this year.

Mr Rolf Kanning, Dresdner's chief representative in China, yesterday said that approval for a Shanghai branch had been given at the end of April after the bank had made an application late last year.

Dresdner has also applied to open branches in Guangzhon and in Shenzen, the booming development zone next to Hong Kong, as part of its strategy to capture a share of growing business opportunities in Asia. Approval is expected within the next few months.

Mr Kanning said Dresdner's move was part of a "long-term" strategy to establish a presence in China. Its main target customers would initially be joint ventures, hnt it hoped to broaden its business once foreign banks were permitted to deal in local currency.

● Hutchieon Whampoa's retailing arm, A.S. Watson, has announced the formation of China's biggest integrated food manufacturing concern, Reuter adds from Hong Kong.

Shanghai A.S. Watson Yimin Food Co, in which A.S. Watson has a 51 per cent stake, will cost US$29m.

Mr Ian Wade, Watson's managing director, said that Watson was also negotiating with its partner, the Shanghai Yimin No.1 Food Factory, on a joint venture to manufacture soft drinks, which would cost US$20m.

SA group bids for Hungary's largest brewer

By Nicholas Denton in Budapest and Philip Gawith in Johannesburg

SOUTH AFRICAN Breweries (SAB), South Africa's largest consumer goods company, emerged yesterday as the preferred bidder for Kobanyai Sorgyar, Hungary's largest and oldest brewery.

SAB has won the right to exclusive negotiations for four weeks to acquire state-owned Kobanyai Sorgyar. The State Property Agency (SPA), Hungary's privatisation authority, announced yesterday. An SPA decision to name a leading bidder generally determines the outcome of a transaction.

Under discussion is a controlling stake – in excess of 75 per cent – in Kobanyai Sorgyar. Privatisation advisers estimate the total value of the transaction at more than $100m.

The planned investment includes the purchase price, a capital injection and the funding of development over five years. The total has surpassed the Hungarian authorities' most optimistic expectations.

The sale of Kobanyai is one of the largest Hungarian privatisations so far this year, and if successful, SAB will become the largest South African investor in eastern Europe.

SAB is the world's seventh largest brewer, but the planned Hungarian acquisition marks its first significant foray into Europe.

The South African brewer's sales are concentrated in the home market, which it dominates, and expansion was until recently hampered by South Africa's international isolation.

SAB's 10 breweries manufacture 99 per cent of South Africa's beer and, according to the 1992 annual report, it exports to 47 countries. In the year to March, SAB made attributable profits of R825m ($258m), of which R541m came from the beer division.

Mr Meyer Kahn, SAB chairman, has often stressed that the company understood developing markets, and this was where any offshore activity would be targeted. However, the group continues to be secretive about its offshore activities, saying it is not in the interests of shareholders to divulge details.

Kobanyai Sorgyar's market share of about 35 per cent and annual sales of about 3.5m hectolitres make it the largest Hungarian beer producer. The company made Ft296m ($3.4m) profits after tax in 1992 on revenues of Ft7.6bn.

But it was also the most indebted in the sector and technically backward, Hungarian officials say.

The identification of a buyer for Kobanyai Sorgyar almost completes the privatisation of Hungary's brewing industry. The SPA is expected within the next two weeks to announce a preferred bidder for another brewer, Pannonia Sorgyar.

Of Hungary's seven breweries, Brau of Austria has acquired two, while Interbrew of Belgium, Heineken of the Netherlands and the management of Nagykanizsai Sorgyar have each taken control of one.

Investors already present in the market were barred from the tender for Kobanyai.

Indus urges rethink on import duties

By Farhan Bokhari in Islamabad

INDUS Motor, the Karachi-based affiliate of Toyota, yesterday appealed for reversal of a reduction on import duties for cars, announced in Monday's Pakistani budget.

Monday's budget reduced import tariffs and other taxes for cars across the board, with the duties on 1300cc cars, similar to the Corolla assembled by Indus, reduced from 197 per cent to 100 per cent.

In response to the company's plea, the government yesterday announced it was setting up a committee to consider appeals from Indus and any other companies who claimed to be affected.

Mr Sartaj Aziz, the finance minister, said that the committee would begin hearings within 72 hours and finalise its recommendations within the next two weeks.

Indus Motor began producing Corollas in April this year, from its Rs1.5bn ($56.43m) plant at Qasim, near Karachi.

The plant has an annual capacity of between 20,000 and 40,000 vehicles.

Toyota has a 25 per cent stake in the company.

Salomon Bros lures Warburg director

By David Waller in Frankfurt

ONE of the three managing directors of S.G. Warburg's German operations is leaving the German arm of the UK investment bank to become a managing director of Salomon Brothers in Germany.

The departure of Mr Nicholas Coulson follows the defection of Warburg's German highly-rated equity analyst team to Goldman Sachs earlier this year, combined with other difficulties in the German market, which is notoriously difficult for foreign financial institutions to penetrate.

Mr Piers von Simson, head of Warburg's European investment banking activities, said that Mr Coulson's departure was "part of the normal comings and goings of investment banking staff".

Mr von Simson said the departure was regretted. He said, however, that corporate finance relationships with German corporations would not be damaged since he had handled these personally from his base in London.

Mr Coulson joined Warburg in London in 1984 and moved to the bank's German operations in 1990. In 1991 the bank established a wholly-owned German subsidiary to complement the acquisition of Berwein Wertpapierhandels- und Börsenmakler, Munich's leading specialist brokerage house in 1989.

Warburg has won some large corporate finance mandates in Germany, for example advising the Treuhand, the east German privatisation agency, on its sale of Interhotel, the east German hotel chain.

It won a high profile advising Aachener und Münchener Beteiligungs (AMB), Germany's second largest insurance group, in its defence last year against what were then the unwelcome attentions of Assurances Générales de France. But Warburg's advice was not heeded and the two companies reconciled their differences.

Warburg lost £11.6m ($17.8m) last year on the closure of the German arm of its Pallas Leasing Group, an important factor behind disappointing figures at the Warburg group last year. These leasing operations were not managed by Warburg's German subsidiary.

Warburg is in the process of transferring its German operations, which employ over 60 people, from Munich to Frankfurt.

BHP says it has no plans for acquisition

BROKEN HILL Proprietary (BHP), Australia's largest listed company, has said that although it is not planning a large acquisition, it is financially in a position to make investments of any size, Reuter reports from Melbourne.

A BHP spokesman said chief executive Mr John Prescott's statement in a newspaper interview that the oil, minerals and steel giant could make an acquisition of any size was made in a response to a question about its strong balance sheet and its expansion plans.

"He wasn't indicating we were about to do anything mammoth," the spokesman said. "We have a lot of options open."

Mr Prescott said in an interview with the Australian Financial Review newspaper: "I think we are very clearly in the situation that we could make any quality investment that we wanted to make – of any scale."

He was also quoted as saying that BHP would issue figures in a few weeks showing it had reduced its gearing in the year to May 31 from the 48.2 per cent level at May 31 1992.

Mr Prescott indicated it would "be a little less than that", the spokesman said.

Bund prices ease amid debate over interest rate cut

By Peter John in London and Patrick Harverson in New York

HEATED debate over whether Germany will cut interest rates today was the focus for government bond traders and analysts throughout Europe. The consensus by the close of trading was in favour of no change and the view prompted German bund prices to end weaker on balance.

GOVERNMENT BONDS

The bund future for September reflected the tussle of views. It opened at 94.97, was bought up to 95.18 on rate cut hopes and then sold back to 94.80 on currency factors before recovering slightly to close at 94.90 in London.

There was some disappointment that the weekly repo rate was left unchanged at 7.6 per cent, but the real damage was done by the surge in the dollar against the D-Mark.

The two pfennig rise sprang from a shift of money into the US currency on comments from an official Bonn source that the government was not worried about the D-Mark's level.

Mr Julian Callow, a European economist with Kleinwort Benson, said: "In some respects the worst fears of the Bundesbank concerning the intentions of foreign investors have been realised."

■ THE net slide in German long-dated bonds was countered by a rise in the French equivalents. The disparate moves resulted in a new historic low for the OAT-bund yield spread which narrowed by two basis points to 0.16.

On the Matif, French June futures opened strongly and broke through a key resistance level to hit 118.92 before profit-taking took it back to 118.86, up four basis points on the day.

■ UK government bonds performed strongly yesterday as dealers focused on the deflationary pressure of actual and expected economic data.

The market shrugged off Tuesday's "Mansion House" speech on the economy by Mr Kenneth Clarke, the chancellor.

However, a fall of 0.2 per cent in retail sales against expectations of a rise reversed any concerns that inflation might be about to take off.

It also came ahead of the latest unemployment data which are expected to show a month-on-month rise of 10,000 after recent falls and add to pressure for a further interest rate cut to kick-start the economy.

Short-dated gilts were sluggish but at the long end they were ahead by around ½ and gilt futures for September rose ⅝ to 104⅛ by the close.

■ IN THE high yielding European markets, Spanish government bonds picked up sharply as the market took heart from a meeting between Mr Felipe Gonzalez, the prime minister, and a representative of the communist-led United Left as well as rate cut optimism. The yield on the 10.3 per cent bond due June 2002 fell 18 basis points to 10.52 per cent.

■ DUTCH government bonds ended marginally lower across the curve as the Ministry of Finance announced that its new 6.25 per cent state bond maturing in July 1998 had raised Fl 9bn in three days.

■ US Treasury prices were flat to firmer across the board yesterday morning as the market struggled to establish a new trading range in the wake of the recent good inflation figures.

By midday the benchmark 30-year government bond was up ¼ at 103⅞, yielding 6.815 per cent. At the short end of the market, the two-year note was unchanged at 100⅛, to yield 4.074 per cent.

The day's economic news had little impact on sentiment. Industrial production rose 0.2 per cent in May, while capacity utilisation was unchanged at 81.6 per cent. May housing starts, meanwhile, rose 2.4 per cent.

The data was broadly in line with analysts' expectations, and made little impression on dealers and investors, who were hoping in vain yesterday that the market would establish a decisive new trading range after the easing of inflation concerns.

FT FIXED INTEREST INDICES

	June 16	June 15	June 14	June 11	June 10	Year ago	High*	Low*
Govt Secs (UK)	95.82	95.54	95.57	95.37	95.38	88.76	95.84	93.28
Fixed Interest	112.04	111.90	111.87	111.85	111.81	104.36	113.83	108.87

Basis 100: Government Securities 15/10/26; Fixed Interest 1928. * for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 113.83 (8/6/93), low 50.53 (3/1/75).

GILT EDGED ACTIVITY

Indices*	June 15	June 14	June 11	June 10	June 9
Gilt Edged Bargains	114.5	84.7	78.7	84.0	84.2
5-day average	91.6	84.7	83.3	84.7	86.1

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	113.3872	-0.078	7.58	7.74	7.53
BELGIUM		9.000	03/03	112.0400	-0.020	7.24	7.32	7.42
CANADA *		7.250	06/03	98.4000	-0.150	7.48	7.63	7.72
DENMARK		8.000	05/03	106.3000	+0.400	7.02	7.35	7.51
FRANCE	BTAN	8.000	05/98	106.6278	+0.167	6.37	6.54	6.84
	OAT	8.500	04/03	111.5700	+0.270	6.91	7.04	7.12
GERMANY		6.75	04/03	99.8600	-0.005	6.76	6.83	6.76
ITALY		11.500	03/03	100.0200	+0.360	11.62†	12.14	12.44
JAPAN	No 119	4.800	06/99	102.4390	-0.074	4.29	4.41	4.43
	No 145	5.500	03/02	108.0863	-0.002	4.44	4.51	4.56
NETHERLANDS		7.000	02/03	102.6500	-0.040	6.58	6.66	6.82
SPAIN		10.300	06/02	98.7293	-0.998	10.52	10.57	11.13
UK GILTS		7.250	03/98	100-25	-3/32	7.05	7.07	7.13
		8.000	06/03	100-23	+7/32	7.90	7.97	8.11
		9.000	10/08	106-20	-8/32	8.30	8.36	8.51
US TREASURY *		6.250	02/03	102-08	-4/32	5.94	6.07	6.02
		7.125	02/23	103-26	-10/32	6.82	6.90	6.94
ECU (French Govt)		8.000	04/03	104.9800	+0.360	7.27	7.28	7.47

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Ontario global offering raised to $2bn to meet demand

By Sara Webb

THE Province of Ontario was the talk of the international bond markets yesterday with the launch of its $2bn, seven-year global bond offering.

The deal was increased from $1.5bn to $2bn reflecting strong demand from investors in the Far East and Europe, and so dealers expect the bonds to be priced at the tighter end of the indicated range to yield 64 basis points over the US Treasury bond. The lead managers gave an indicated range of 64-66 basis points over the Treasury bond.

The Province of Ontario, which has an AA2/AA credit rating, is a fairly frequent borrower in the international capital markets, usually preferring to launch global US dollar or Canadian dollar deals.

Mr John Maddeo, assistant deputy minister of finance, said yesterday that the Province has a 1993-1994 borrowing requirement of C$10bn. "We have already pre-borrowed C$2bn and this latest global bond issue is the equivalent of another C$2.5bn," he said. The Province of Ontario borrowed C$14bn in fixed income in 1992-1993 to fund a C$12bn deficit.

Salomon Brothers, which is joint book-runner with Goldman Sachs, said investors were hungry for dollar bonds "because there hasn't been that much sovereign or supranational paper in dollars and there won't be much in the seven-year area, so people want a good liquid benchmark".

INTERNATIONAL BONDS

The province's 10-year dollar paper is trading at a yield spread of about 70 basis points in the secondary market.

The other main dollar deal of the day was LKB Baden Württemberg Finance's $500m 10-year bond issue. The deal, which was marketed as a "hybrid dragon-Eurobond", was targetted at Asian and European investors. It was priced to yield 25 basis points over the US Treasury bond, but the spread widened out in the course of the day.

Nomura, the lead manager, said the spread widened to 26-28 basis points, but other houses said they were quoting a spread of around 30 basis points in London.

Elsewhere in the market, Deutsche Bank Finance raised Y50bn with a five-year bond issue lead managed by Daiwa Europe. The lead manager said this is the first public borrowing in yen by Deutsche Bank Finance. The proceeds were swapped into floating-rate yen because of the attractive arbitrage opportunities.

● Norsk-Hydro has launched a $300m Yankee bond issue in the US domestic market, writes Tracy Corrigan. The 30-year non-callable bonds carry a coupon of 7¾ per cent and were priced to yield 97 basis points over the comparable US Treasury. The deal was arranged by Morgan Stanley.

● Standard & Poor's, the credit rating agency, said it has lowered its senior long-term rating for debt issued by Rhône-Poulenc, the French chemicals group, to A- from A, while the short-term rating has been lowered to A-2 from A-1.

● A meeting between Bulgarian government officials and commercial bank creditors has produced no results so far, according to a spokesman for Deutsche Bank, the German bank hosting the talks, Reuter reports from Frankfurt.

The talks focus on Bulgaria's ability to pay interest and principal on its $9.3bn foreign bank debt. The two sides are split on the size of the payments, which are part of a debt restructuring package.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Province of Ontario	2bn	(a)#	(a)R	Jun.2000	0.325R	(a) (5½%-00)	G. Sachs/ Salomon Bros.
YEN							
Deutsche Bank Finance	50bn	4.375	99.47R	Jul.1998	0.25R	+35(4.6%-98)	Daiwa Europe
FRENCH FRANCS							
CCCI(b)	1bn	7.25	98.41R	Jul.2000	0.35R	+75 (8½%-00)	CCF
Caisses d'Epargne(c)‡	850	(c)	103.069R	Jun.2003	0.35R	-	Banque Paribas
CANADIAN DOLLARS							
Kingdom of Sweden	250	8.75	99.225R	Dec.1998	0.2R	+40 (6½%-98)	Hambros Bank
AUSTRALIAN DOLLARS							
ABN Amro Australia	100	7	101.12	Jul.1998	2	-	ABN Amro Bank/ BZW
GUILDERS							
European Investment Bank	500	6.625	98.7R	Jul.2003	0.25R	+7.8(6¼%-03)	ING Bank
SWISS FRANCS							
NEC System I. & C.(d)+§	130	1.125#	100	Sep.1997	-	-	Swiss Bank Corp.
Helaba	100	4.75	101.25	Jul.2003	-	-	Zürcher Kantonalbank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Priced today to yield 64-66bp over US Treasuries. b) Borrowers full name: Caisse Centrale de Crédit Immobilier. c) Fungible with the FFr1.5bn launched on 6/4/93. Plus 28 days accrued interest. Coupon pays the CME + 0.1%. d) Fixing: 21/6/93. Acceleration clause (150% rule) applies from 30/9/94. Callable from 30/9/95 at 102% declining by ½% semi-annually.

Korean stock shortage boosts demand for GDRs

By Tracy Corrigan

DEMAND for global depositary receipts and convertible Eurobonds issued by Korean companies has been boosted by the lack of availability of Korean stocks.

Although the Korean stock market has been partially opened to foreign investors, under Korean regulations foreign investors cannot hold more than 10 per cent of the shares in any Korean company, and that limit has already been reached in many cases.

Consequently, foreign investors are willing to pay a premium to get hold of paper, which has fuelled issuance of GDRs and convertibles, which are not covered by the rules.

Samsung Electronics's $150m recent issue of global depositary receipts, priced at the end of last week, was five times oversubscribed, according to lead manager Goldman Sachs. As a result, many participants in the deal were disappointed with their small allocations of paper.

The lead manager reported an even spread of demand from Europe, the Far East and the US, where the GDRs are being placed under the Securities & Exchange Commission's Rule 144A.

INTERNATIONAL EQUITY ISSUES

The deal was the second GDR issue for Samsung, which is a favourite Korean stock, along with others in the electronics sector.

The new GDRs were priced at $29.50, compared with $30.25 for the outstanding GDRs, and at a premium of 23 per cent (compared with 25 per cent, the current premium of the original GDR issue, with which the new GDRs become fungible early next year).

Given the strong demand for the paper, a number of other Korean companies are also eyeing the market.

Ssangyong Oil, the private-sector oil company, is contemplating a $150m convertible issue, while Jinro, a drinks manufacturer, may launch a $30m issue of convertible bonds.

JSDA to admit banks as special members

JAPAN Securities Dealers Association is to admit banks as special members following April's financial system reform allowing bank units into the securities business, Reuter reports from Tokyo.

"It is not clear when authorities will actually give a go-ahead for the first securities subsidiaries of banks," JSDA said. "But the overall direction has been set."

Bank units' operations will be restricted to the primary market, and will need to ask ordinary brokerages to trade equity-linked bonds they lead manage, JSDA said. The bank units will ask one JSDA-member brokerage to make a market in such bonds, and JSDA will appoint another as a second market-maker.

Meff to end two currency futures contracts

MEFF, the Spanish financial futures and options exchange, is to stop offering peseta/dollar and peseta/D-Mark futures contracts, AP-DJ reports from Madrid.

The Barcelona-based Meff, said the exchange agreed "temporarily" to stop offering the contracts, but that there remained a chance they would be traded again in the future.

The spokesman said he was unable to say why the decision had been taken. However, according to Europa Press, the Spanish news agency, Meff said the two currency contracts, the only currency futures traded on the exchange, failed to attract enough demand to keep them trading.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6.55 pm on June 16

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9⅛ 94	230	105⅛	105½	-⅛	4.34
AlbertaProvince 9⅛ 95	630	110⅛	110⅝		4.72
Austria 8½ 00	400	113⅜	114		5.94
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Allied 7½ 95 LFr	600	100	101	+⅛	7.48
ECSC 7¾ 94 LFr	1000	100	101		7.74
World Bank 6 96 LFr	1000	101	102	-⅛	7.52
[illegible]					

DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month; §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	51	10	16
Other Fixed Interest	3	0	12
Commercial, Industrial	301	251	848
Financial & Property	186	87	525
Oil & Gas	28	13	42
Plantations	0	0	6
Mines	70	14	55
Others	77	21	29
Totals	716	396	1,535

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
245	Nil	23/6	86pm	57pm	British Land	63pm	+5
155	Nil	23/7	50pm	38½pm	Brixton Estate	49½pm	+½
55	Nil	6/8	1pm	1pm	Ferranti	1pm	
5	Nil	9/7	2½pm	¼pm	Harmony Leisure	1¼pm	
350	Nil	27/7	48pm	44pm	MEPC	46pm	
25	Nil	25/6	12pm	8pm	Osprey Comms.	10½pm	
102	Nil	23/7	28pm	24pm	Sanderson Murray & E	24pm	-2
135	Nil	13/7	34pm	26pm	Sheffield Insulns.	29pm	-1
19	Nil	21/7	14pm	8pm	Sleepy Kids	8pm	-3
600	Nil	13/7	36pm	13pm	Zeneca	21½pm	+5½

§ Figures based on prospectus estimates. R Figures based on IMR 'Headline Earnings' draft proposals. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. ‡ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings June 14
● Last Dealings June 25
● Last Declarations Sep. 16
● For settlement Sep. 27

3-month call rate indications are shown in Saturday editions.

Calls in Aegis, Amstrad, Avesco, ASDA, British Aerospace, British Land, Britton, Division, Ferranti, Flextech, S.R. Gent, Millwall, Ramco Oil, Slough Ests. and Utd. Energy. Put in Sims Food. Doubls in Aegis.

FT-SE ACTUARIES INDICES

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland Limited. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. All rights reserved.

The FT-Actuaries All-Share Index is calculated by The Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The Financial Times Limited 1993. All rights reserved.

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices, the FT-SE Actuaries Industry Baskets and the FT-Actuaries All-Share Index are members of the FT-SE Actuaries Share Indices series which are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

"FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited.

LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied-Lyons	500	46	60	68	4½	12½	19
[illegible]							

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Brit Aero (*401)	380	37	58½	69	22	38½	44
[illegible]							

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Eurotunnel (*420)	420	0	37½	57½	2	33½	47
	460	1	22	22½	44	60½	71
[illegible]							

FT-SE INDEX; EURO FT-SE INDEX: [illegible]

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES British Government	Wed Jun 16	Day's change %	Tue Jun 15	Accrued interest	xd adj. 1993 to date
1	Up to 5 years (26)	127.35	+0.02	127.33	1.86	5.26
2	5-15 years (21)	149.80	+0.16	149.56	1.73	6.66
3	Over 15 years (9)	158.53	+0.28	158.08	2.61	4.40
4	Irredeemables (6)	177.57	-0.28	178.07	0.69	6.68
5	All stocks (62)	143.50	+0.13	143.32	1.87	5.96
	Index-Linked					
6	Up to 5 years (2)	194.78	+0.01	194.77	1.00	1.62
7	Over 5 years (11)	173.97	-0.05	173.88	0.69	2.28
8	All stocks (13)	174.30	+0.05	174.22	0.69	2.25
9	Debs & Loans (65)	129.51	+0.18	129.27	2.48	4.92

AVERAGE GROSS REDEMPTION YIELDS: [illegible]

Further £44.2m expansion into UK landfill sector

Hanson acquires waste business from Tarmac

By Richard Gourlay and Andrew Taylor

ARC, a subsidiary of Hanson, the Anglo-US conglomerate, has paid £44.2m for the principal assets of Econowaste, the waste disposals business built by Tarmac.

The acquisition marks a further move for Hanson into the UK waste sector, making its Greenways Landfill subsidiary the third largest operator of landfill sites in the UK.

In March the conglomerate took a 4.9 per cent stake in Shanks & McEwan in return for options in landfill sites which the waste company had exercised.

For Tarmac, the UK's biggest building materials and construction group, the sale marks a further stage in its programme to reduce its large borrowings by selling peripheral businesses.

"We want to be out of active waste and into void creation," said Mr Neville Simms, Tarmac's chief executive.

Tarmac decided to sell Econowaste in the third quarter last year when high prices for waste businesses ware still expected by some in the industry. It was initially hoping to sell the entire business for £80m. Mr Simms said yesterday's sale was only marginally below the figure Tarmac expected to achieve.

Tarmac has now disposed of more than £200m of assets in tha last 12 months and is believed to have made a £10m book profit on the Econowaste sale.

It plans to raise more than £300m from asset sales, on which it hopes to hreak even. Mr Simms said that might prove tough in the current markets.

The businesses sold to ARC are understood to account for about two thirds of Econowaste's profits which approached £3m pre-tax last year. The parts of Econowaste that Tarmac is retaining made £1m.

Mr Martin Taylor, Hanson's chief executive, said it was a good time to huy assets and that "hopefully" the British recession had bottomed out. "We think Greenways is a very good business and this is a sensible acquisition at this price at this time."

ARC is buying 18 of Econowaste's sites, 12 of which are active. This will give ARC an additional 54m cu ft of landfill capacity to add to the 42m Greenways operates at 20 sites in England and Wales.

In addition ARC is buying the waste haulage business. It also has options to acquire rights over 17 sites for further landfill.

The combined business will have an annual turnover of £35m.

"Tougher environmental legislation will offer increasing opportunities to landfill operators with good access to long term void resources," said Mr Nigel Sandy, managing director of Greenways.

Tarmac's net debt at the end of last year, including the group's share of off-balance sheet finance of £100m and £99.3m of auction preferred stock, stood at £677m. This was equivalent to 73 per cent of shareholders' funds £942m.

Mr Simms has said that he hopes to reduce debt by a further £200m this year through disposals, savings and hy further squeezing working capital including in UK housebuilding.

'Lean and efficient' structure for Forte

By Philip Rawstorne

FORTE, the botels and restaurants group, yesterday announced a further series of changes designed to sharpen management focus on its core businesses.

The most significant move is the replacement of the separate hotels and restanrants divisional structures with individual business and service units reporting to a newly-created operating board.

Mr Rocco Forte, group chairman, said yesterday that the changes would provide "a lean and efficient structure" enabling the company to "concentrate its resources in the hotel and restaurant sector and on businesses within it which can build or sustain a leading position."

The new board will include Mr Alan Hearn and Mr Tony Monnickendam, the present divisional heads, as gronp directors with responsibility for the business and service units, as well as Mr Bob Leinhard (strategy), and Mr Richard Power (communications).

Mr Hearn and Mr Leinhard will also become members of an office of the chairman being formed to assist Mr Forte in the executive management of the company.

Each of the new units will manage a brand or group of brands, increasing customer focus and shortening lines of communication.

Appointments inclnde Mr Randolf Guthrie, former managing director of Shangri-La hotels, one of the leading Asian groups, who will head Forte Grand; Mr Herman Jenny, former chairman and chief executive of Copthorne hotels, who will run Forte Crest.

Sale of waste arm helps NFC jump to £87m

By Angus Foster

NFC, the transport and logistics company, yesterday reported slightly lower than axpected profits because of losses at its Lynx parcels division.

Pre-tax profits more than doubled from £37.2m to £86.6m in the 28 weeks to April 17, thanks to a £50m profit on the sale in January of the company's waste management arm.

Mr James Watson, chairman, sald economic conditions remained "difficult" although there were signs of improved confidence in the UK and US. In continental Europe, activity was at "a low ebb."

The results have been prepared under the FRS 3 treatment and the comparisons have been restated.

The company has maintained its "best view" forecast for the full year of on-going profits of between £95m and £100m. However, Mr Watson said the board would review its practise of giving best view forecasts, mainly because of legislative concerns in the US.

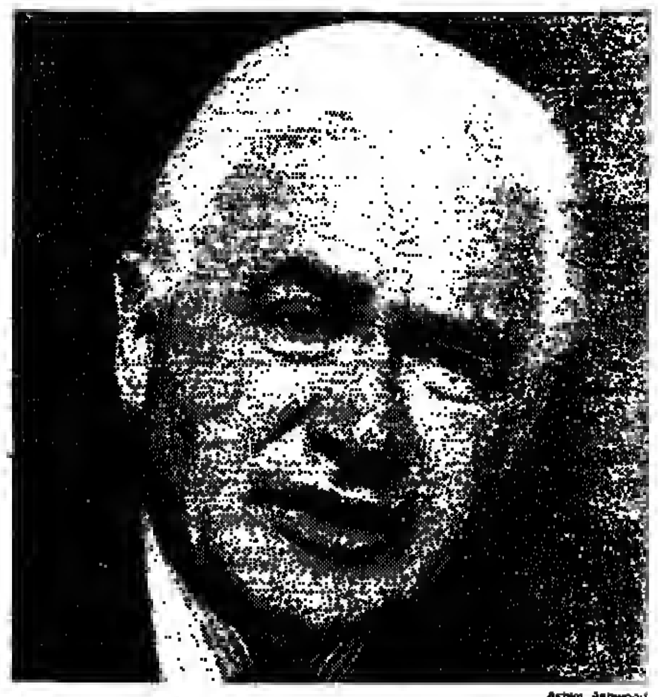
Turnover increased 11 per cent to £977m (£879m), helped by currency factors. Operating profits rose to £49.9m (£43.1m).

Most of the growth came from Exel Logistics, which increased operating profits hy 50 per cent to £33.5m, helped by acquisitions and translation of dollar earnings.

BRS, the transport and truck rental arm which incurred heavy reorganisation costs last year, increased profits by 52 per cent to £15.4m.

Allied Pickfords Merchants, the removals division, saw flat profits of £7.1m.

Lynx was affected by overcapacity and depressed margins in its market, and recorded operating losses of £6.1m. Despite management changes, the full-year performance would depend on economic recovery, NFC said.



Ashley Ashwood

James Watson: reviewing practise of "best view" forecasts

Interest costs more than doubled to £10.9m. The cash inflow from the waste division sale was cancelled by acquisition costs.

Net borrowings, affected by currency and seasonal factors, increased from £181m at the year end, to £256m, leaving gearing at 73 per cent. Mr Watson said gearing would end the year at about 55 per cent.

Earnings were 13.5p (5.2p).

A second interim dividend of 1.45p is declared, making a total of 2.8p for the half year.

The shares fell 8p to 249p.

See Lex

M&S helps Stirling double to £5.8m

By Peter Pearse

STIRLING GROUP, the clothing manufacturer which supplies Marks and Spencer, more than doubled pre-tax profits from £2.64m to £5.84m in the year to March 31 on turnover 48 per cent higher at £100.8m.

Mr Peter Sheldon, chairman and chief executive, put the advance down to a number of reasons, hut singled out the long-term solidity of its relationship with M&S, its "principal customer", which accounted for about £70m of turnover. This, however, was from a period of 53 sales weeks at M&S.

High volume production runs for M&S had lengthened as the retailer reduced the number of suppliers, Mr Sheldon said, enabling Stirling to achieve greater efficiencies and lift operating margins for its M&S business to 7 per cent.

Mr Sheldon said that although Stirling was "very reliant" on M&S, so also was M&S on its leading 10 suppliers.

He said the year had been "one of consolidation of our recent acquisitions" – the most important of which was another M&S supplier, Ritz Design, in December 1991 for £19.2m. It contributed £40m of turnover and enabled the group to be closed with the loss of some 440 jobs.

Mr Sheldon said that progress was due to the contract division, with importing and brands making "only small contributions".

During the year Boftex, a UK importer with a Hong Kong-based sourcing operation, was bought for £440,000. Since its integration and the ironing out of volume problems, Mr Sheldon expects an improvement from the import side. Main customers here include C&A, Burton, Littlewoods and BhS.

Brands, which include Rigby & Peller and Fantasie, take a while to achieve strong profits growth, Mr Sheldon said.

Net interest payable was £712,000 (£199,000) – the Ritz acquisition included £4.5m, now £3.5m, of medium-term debt. The final dividend is lifted to 1.35p (1.15p) for a total of 1.85p (1.65p), covered 2.1 times by earnings of 3.92p (3.68p) per share.

Porter Chadburn shares rise 30% despite £3.6m deficit

By Paul Taylor

EXCEPTIONAL losses of almost £7m, mostly related to the discontinuation of the loss-making Gola business, pushed Porter Chadburn, the packaging, consumer products and specialist distribution group, into a £3.62m pre-tax deficit in the year to April 2.

The final dividend is cut to 0.4p, halving the year's total to 1.25p.

However, the shares jumped 30 per cent – from 20p to 26p – reflecting positive comments on the outlook from Mr Raymond Dinkin, chairman. He said there had been "continued growth" in the US since the year-end and reported "a few encouraging signs," including some stronger order books, in the UK.

The loss, which had been expected, led to losses per share of 4.82p; in the previous year there was a profit of £5.59m giving earnings of 5.18p. The results were prepared in accordance with the FRS 3 accounting standard.

Mr Dinkin said 1992-93 had been "a year of mixed performances" with Porter Chadburn's enlarged labelling business in the US performing well. But the UK leisure and household marketing and distribution activities suffered badly from recession which hit sales and margins, particularly in the second half.

Group turnover from continuing operations increased by 19 per cent to £132.3m (£110.8m) including £11.9m from acquisitions. Discontinued operations added £5.4m (£21.5m).

Operating profit from continuing operations fell by 50 per cent to £4.14m (£8.3m), and acquisitions provided £1.56m. The discontinued Gola operations incurred operating losses of £1.36m (£2.36m).

Turnover in the packaging division, led by Lord Label and the recently acquired Lancer Label in the US, jumped by 62 per cent to £52.6m (£32.6m) and operating profits increased to £4.78m (2.63m).

In consumer products sales also grew slightly to £61.7m (£60.2m) but operating profits slumped to £214,000 from £4.07m. Profits from the specialist distribution businesses slipped to £709,000 (£1.61m) on turnover of £17.9m (£18m).

Net interest payments fell to £978,000 (£1.36m) and year-end borrowings were £10.9m, representing gearing of 56 per cent.

P&S advances 50% to £6m

Portsmouth & Sunderland Newspapers achieved a 50 per cent increase in pre-tax profits from £4.01m to £6.01m for the year ended March 27.

Excluding rationalisation and exceptional costs, there was a 13 per cent rise in underlying pre-tax profit.

Turnover of £60.1m (£58.1m) came from newspaper publishing and printing operations, while retailing contributed £42.4m (£37.9m).

Retail trading profits were £1.3m (£954,000) while newspaper publishing and printing produced £5.2m (£5.3m).

The group's net cash position improved over the year by £3.2m, leaving it with £1.1m.

Earnings were 39.3p (31.9p). The final dividend of 6.62p makes a total of 9.46p (8.6p).

The shares added 7p to 675p.

London Scottish Bank up 11% as loan arrears improve

By John Gapper, Banking Correspondent

LONDON SCOTTISH Bank, the consumer finance company, yesterday announced an 11 per cent rise in interim profits after its income from personal loans rose for the first time in two years.

The bank, which makes consumer loans and collects debts on behalf of other companies, said its rise in pre-tax profits for the half year to April 27 to £2.01m (£1.81m) reflected an improvement in loan arrears as recession eased.

Income from interest on loans rose 2.5 per cent to £9.75m (£9.51m), which the bank said was the first rise in loan income since April 1991. Income from commission on third party debt collection rose 17 per cent to £3.11m (£2.66m).

Mr Jack Livingstone, chairman, said the rise in interest income had been produced by an improvement in arrears, as the net value of loans to customers – less unearned interest and insurance payments – rose to £39.7m (£37.5m).

The had debt charge fell £184,000 to £1.06m. The results were also helped by a 13.9 per cent fall in finance costs for funding lending to £1.2m (£1.4m) following the fall in base rates.

Income from the sale of Christmas hampers – for which customers contribute weekly – fell by 5.1 per cent to £1.11m (£1.17m). The bank said orders in the first 26 weeks, which will be taken into profit in December, had risen by 15 per cent.

Income from insurance to cover interruptions in loan payments fell by 1.3 per cent to £1.9m (£1.93m). The figure was affected by higher unemployment.

The interim dividend is increased by 8.4 per cent to 1.03p (0.95p). Diluted earnings per share rose by 8.7 per cent to 2.5p (2.3p). The shares closed ½p down at 82½p.

Hemingway Properties buys £30m portfolio

By Vanessa Houlder, Property Correspondent

HEMINGWAY Properties yesterday announced a £21.9m placing and open offer to help finance the acquisition of a £30.2m portfolio of property.

It consists of 19 retail and industrial investments throughout England and will dilute Hemingway's concentration in London and the south-east. It is buying the property from Wyndham Investments, the trustee of the Allied-Lyons Pension Fund.

The placing involves the issue of 40.3m new ordinary shares and £12.1m nominal of 7.5 per cent convertible unsecured loan stock 2027. The company is also issuing £20m of debenture stock at 10.37 per cent.

After the acquisition, placing and open offer, the net asset value per share will be 25p, compared with 26.1p at the end of 1992. On a fully diluted basis, it will be 27p per share allowing for conversion of the stock. The shares rose yesterday from 28½p to 30p.

The open offer to qualifying shareholders will be 4m units, comprising 10 ordinary shares and 3 nominal of stock, al 562.5p per unit. It will be made on a basis of two units for every 27 shares. The new securities will be placed by Paribas.

There will be a capital reorganisation to eliminate tha accumulated deficit on the profit and loss account.

Low & Bonar acquires designer for £17.4m

By Angus Foster

LOW & BONAR, the Dundee-based packaging and plastics group, has made its second acquisition this year with the £17.4m purchase of CMB Carton Systems, a designer of packaging equipment.

Low & Bonar raised £50.2m through a rights issue in March for the £33m acquisition of Cereal Packaging. It will use the balance for the lalest purchase, which will make it the UK's second largest maker of high quality folding cartons.

Mr Jim Leng, chief executive, said the purchase of CMB Carton "bridged a strategic gap". He said the expanded company would be able to offer equipment design services to existing clients and would benefit from enlarged purchasing power.

CMB Cartons, based in Speke and Swindon, made operating profits of £2.2m last year on sales of £28m. At completion it had net assets of £7.5m, with no debt.

The company was acquired from French warehousing gronp CGP, whicb in turn bought the company in 1991 from CarnandMetalbox.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Chemring	int	3	July 30	2.725*	-	8.155*
Chester Water	fin	150	-	-	225	-
Craig & Rose	fin	12.5	July 16	12.5	14.5	14.5
Granada	int	3.025†	Oct 4	2.75	-	7.7
Ivory & Sime	fin	4.75	Sept 6	4.5	6.5	5.75
Kembrey	fin	0.155	Sept 6	0.15	0.155	0.15
Ldn Scottish Bk	int	1.03	July 30	0.95	-	3
MCIT	int	4‡	Aug 9	-	-	-
Mountview Ests	fin	12	Aug 16	10	20	18
NFC	int	1.45☆	Oct 4	1.4	-	6.55
Porter Chadburn	fin	0.4	Oct 4	1.65	1.25	2.5
Ports & Sund	fin	6.62	Aug 2	5.87	9.46	8.6
Stirling Group	fin	1.35	Oct 5	1.15	1.85	1.65
United Drug	int	2.2♣†	July 16	2.05	-	6.7

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Equivalent after allowing for scrip issue. §USM stock. ♣Irish pence. ☆Second interim; makes 2.8p (2.7p) to date. ‡Special payment.

Exports lift Chemring to £2.92m

By Richard Gourlay

STRONG EXPORTS helped Chemring, the maker of anti-missile chaff, distress rockets and waterproof clothes, to report a 10 per cent increase in interim profits.

Pre-tax profits rose from £2.65m to £2.92m on sales up 15 percent at £21.3m. Earnings per share rose 9 per cent to 9.49p and the interim dividend goes up 10 per cent to 3p (2.725p).

Mr Philip Billington, chairman, said defence markets – which account for 55 per cent of group business – would continue to enjoy steady growth. Measures to deter missiles attracted by heat and radar signatures would continually need to be improved.

Sales of distress rockets and marine-related safety equipment – which make up part of the 45 per cent of non-defence sales – were benefiting from the introduction of new safety regulations.

The group was looking at some sizeable acquisitions which might require a call on shareholders.

COMPANY NOTICES

Go-ahead for spent fuel dry store will cut reprocessing costs

Scottish Nuclear jumps to £66m

By James Buxton, Scottish Correspondent

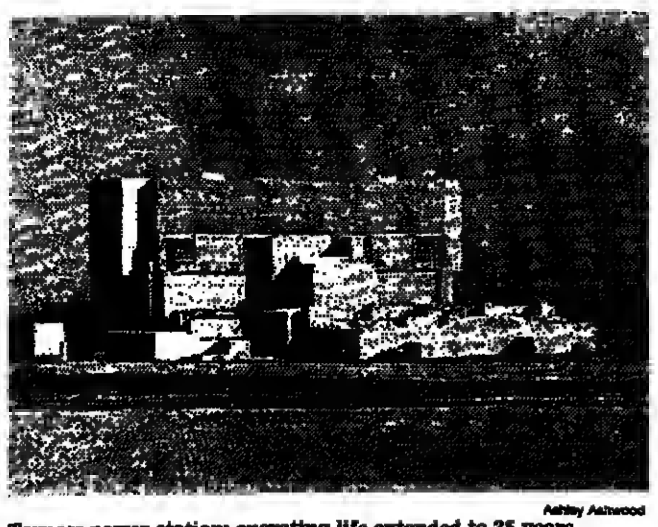
SCOTTISH NUCLEAR, the state-owned company which operates Scotland's two nuclear power stations and generates nearly half of its electricity, more than quadrupled pre-tax profits in the last financial year.

Mr James Hann, chairman, said the results were "still not good enough, but nevertheless a substantial improvement."

The company aims to make further cost reductions and to become "privatiseable", by which it means healthy enough to be privatised should the government so choose.

Pre-tax profits of £65.8m for the year to March 31 compared with £13.7m previously. Turnover increased almost 10 per cent from £477m to £524m.

Scottish Nuclear's depreciation was £14m less than it would otherwise have been, due to its acceptance of an engineering study which extended the operating life – from 30 to 35 years – of the Torness power station in Lothian. A similar study is being carried out on the Hunterston B station in Ayrshire.



Ashley Ashwood

Torness power station: operating life extended to 35 years

The company's operating cost fell from 3.21p per unit of electricity to 2.98p. The plants had a combined load factor of 68.2 per cent.

There is no non-fossil fuel levy in Scotland, unlike in England and Wales, but Scottish Nuclear sells power to its two customers, ScottishPower and Scottish Hydro-Electric, at more than the market price. This will fall, in line with an agreed formula, from 1994-95.

Scottish Nuclear hopes shortly to receive planning permission from Mr Ian Lang, Scottish secretary, to build a dry store at Torness to hold spent fuel.

The store will open two years after planning permission is granted and the company hopes to save £45m a year in fees that are currently charged for reprocessing at Sellafield, Cumbria, by British Nuclear Fuels.

The company also wants to reduce its bill for fuel, which was £84.4m last year.

It is negotiating with nuclear fuel manufacturers – believed to be in France, Japan and the US – as well as with BNF, which is the world's only supplier of fuel for advanced gas-cooled reactors. Scottish Nuclear said it would consider helping finance the construction of an AGR fuel plant by an overseas supplier.

● Nuclear Electric has appointed Price Waterhouse Corporate Finance as its financial adviser in the forthcoming government review of the UK nuclear power industry. PW will also advise on NE's business strategy, including the options for raising finance from the public sector. Mr John Collier, NE's chairman, reaffirmed its aim of making a profit without subsidy by 1996.

Barlo offer and placing to fund acquisition

By Tim Coone

BARLO, the Dublin-based radiator and plastics manufacturer, announced an I£19m (£18.6m) open offer and share placing to finance the acquisition of VEHA, a Belgian radiator manufacturer.

Total price will be I£14.5m; the additional proceeds will be used for extra working capital and capital expenditure in the enlarged group.

The 35m new shares are to be offered at 58p per share on a 2-for-7 basis to existing shareholders. The placing is underwritten by AIB Capital Markets.

Last month Barlo reported a sharp upturn in pre-tax profits to I£3.9m for 1992-93, with strong growth in its radiator division. The deal, agreed with VEHA's present owners – Royal Begemann – will boost the division's turnover from I£20m to over I£50m.

Barlo hopes to expand sales of its commercial radiators through VEHA's existing sales network in Europe.

Invesco MIM pulls out of unquoted investments

By Charles Batchelor

INVESCO MIM, the fund management group, has completed its withdrawal from active unquoted company investments with the sale of Invesco Ventures to Baronsmead, an independent venture capital company.

The group's retreat from unquoted investments began when Drayton Consolidated Trust, an investment trust it managed, ran into difficulties. Drayton Consolidated was wound up at the end of last year and primary responsibility for the management of a successor fund, Second Consolidated, was taken over by Foreign & Colonial Ventures.

Invesco paid £9.5m to investors in Drayton Consolidated after it emerged that it had breached the trust's ceiling on the concentration of funds in a single investment.

Invesco Ventures, formerly known as Invesco MIM Development Capital, has a portfolio valued at about £40m comprising a pooled fund and several local authority funds.

The local authority funds have geographical restrictions on where investments can be made but the purchase gives Baronsmead about £12.5m of liquid funds to invest at a time when conventional fund-raising activity is particularly difficult.

The purchase represents a considerable boost for Baronsmead which has a portfolio valued at about £65m, including £25m managed on behalf of Barclays. Invesco Ventures has investments in 70 companies while Baronsmead has 50 investments.

The value of the deal was not disclosed but the payment is performance related. Mr Michael Perman, Invesco company secretary, said the unquoted investments were "profitable but marginal." Two Invesco staff will join Baronsmead's 10-strong executive team.

Mr Norman Riddell, chief executive of Invesco's European division said: "Venture capital no longer forms part of our core activities."

IWP improves to I£11.8m

By Tim Coone in Dublin

IWP International, the Dublin-based industrial holding group, reported a 7.4 per cent increase in pre-tax profits to I£11.8m (I£11.0m) on turnover up 2.8 per cent to I£95.2m for the year ending March 31.

The advance was achieved "despite unfavourable economic conditions in the UK and the currency crisis which prevailed in Ireland in the second half of the year" according to Mr Joe Moran, chairman.

The group comprises 18 companies divided into two main divisions, manufacturing chemically-based household products and printed cartons and self-adhesive labels. Its main markets are the UK, Ireland and the Netherlands.

The household division performed particularly strongly with operating profits up 14 per cent to I£8.97m on turnover ahead almost 7 per cent at I£48.8m and now accounts for almost 70 per cent of group profits.

The packaging division's operating outcome dipped to I£5.07m (I£5.36m) of turnover of I£43.1m (I£42.9m), mainly reflecting price competition. The small telecommunications interests incurred a small loss.

Some I£4.2m has been spent on acquisitions in the past year, while one of the two companies involved in telecommunications was disposed of for a consideration of I£2.1m in shares in VMX, a California-based electronics company.

Mr Moran warned that trading conditions continue to be "difficult ... we cannot at this stage be over optimistic about the current year".

Earnings per share were up 13.5 per cent to 31.9p (28.1p) and a final dividend of 4.25p is recommended for a total of 7.25p (6.6p).

Carpetright offer for sale oversubscribed

The public offer for sale for Carpetright, Sir Phil Harris's carpet retail chain, closed oversubscribed yesterday, writes Maggie Urry.

Details of the level of subscription and allocations will be announced next week; dealings begin on Wednesday.

The placing of 25.5m shares with institutions was oversubscribed, with investors reported to have received about a quarter of those they sought. The offer of 13.7m shares is believed to have been comfortably oversubscribed, with some applications thought to be from institutions disappointed in the placing.

Control Securities

Control Securities has received acceptances of its exchange offer to bondholders in respect of 94.8 per cent of the 7.5 per cent guaranteed bonds 1989-94 and 98.4 per cent of the 8.875 per cent guaranteed bonds 1990-97 in issue.

Bromsgrove buys

Bromsgrove Industries, the West Midlands-based engineer, is paying £1.48m for Gainsborough, a precision machinist which concentrates on the aerospace sector.

The consideration comprises £575,000 cash, £650,000 of nil interest loan notes payable next June and 241,546 new shares – £50,000 in shares is deferred until next June.

Anagen ready for market and plans to raise £15m in placing

By Roland Rudd

ANAGEN, a biotechnology company with no sales to date, is coming to the market via a placing which will raise £15m. The group is capitalised at £46.5m.

Anagen is developing AN2000, a line of fully automated immunoassay systems. This is a method of measuring the presence of cancer markers, fertility hormones and other substances in blood.

The company is placing 15m 10p shares at 100p each. The cost of the flotation was £600,000 and £2.9m will be used to pay off short-term borrowings. The remaining £11.5m will be split between working capital and the funding of a new system, AN300, to detect contamination in food.

With spending on research and development running at an annual rate of £3.5m, Mr Mervyn Sennett, managing director, said the company would not be cash flow positive until the third quarter of 1995.

The company will not be ready for commercial production until this November, although its product is currently in pre-production. Its development costs – £14.5m so far – are financed by a consortium of venture capital firms led by Schroder Ventures and include CINVEN, the venture capital arm of the Coal Board pension fund, Electra Capital, Norwich Union Venture Capital and Questa.

Dealings are expected to start on June 24.

Waterford rationalisation successful

MR DONALD Brennan, managing director of Morgan Stanley, is to hand over the chairmanship of Waterford Wedgwood to Mr Tony O'Reilly towards the end of this year once the luxury crystal and ceramics manufacturer's rationalisation programme is complete, writes Tim Coone.

Speaking at the annual meeting, Mr Brennan said the rationalisation plan for the crystal and ceramics divisions "has been put in place with considerable success".

He said the acceptance of the plan by the Waterford Crystal workforce last January, that division's return to operating profits, and improvements in cost reductions and production efficiencies at Wedgwood had put the group "in a better position today than many believed possible a year ago".

He acknowledged the sacrifices in job losses but said as a result of rationalisation more than I£10m (£9.8m) had been permanently removed from the cost base in a comparison with overheads in 1991-92.

"I seriously doubt if we would be meeting here today had not the capital infusion been made in 1990 and this plan put in place and well executed", he stated.

Mr Brennan was appointed chairman a year after Morgan Stanley and Fitzwilton, the industrial holding group headed by Mr O'Reilly, bought jointly a 29.9 per cent stake in the group for I£79m.

Mezzanine Capital pays special 4p interim

By Philip Coggan, Personal Finance Editor

MEZZANINE Capital & Income Trust 2001 has declared a special interim dividend of 4p per income share. This follows the flotation of one of its investments, American Safety Razor, on the Nasdaq exchange.

The US group issued payment-in-kind notes as part of a financial restructuring last year. As the PIKs were not cash, MCIT cut its interim dividend last year. However, MCIT has received a repayment of $7.5m (£4.87m) as part of the flotation, including repayment of the PIKs, and is accordingly making a special distribution.

The flotation values MCIT's equity stake in American Safety Razor at $2.9m, compared with the balance sheet valuation of $1.5m.

MCIT has also made a further investment, of about $9m, in debt and other securities of LePage Industries.

Graystone cash call receives 12% acceptance

The rights issue by Graystone was taken up as to 11.93 per cent of the fully underwritten issue. The balance will be subscribed at the 8p price by the sub-underwriters.

Graystone, recently known as Ptarmigan Holdings, launched the rights, originally planned as a placing, to raise £5m towards the £8m cost of acquiring FKI Cableform, which makes numbering machines, lighting products and electrical controls.

This follows the acquisition last November of three engineering companies.

It is disposing of its original businesses of making sausage casings, artificial flowers and ribbons, publishing cookery and crafts books, and running three small country hotels.

The directors said the fund raising would give the company a much broader spread of institutional holders.

They have "expressed considerable interest" in the potential for the enlarged group.

The issue was underwritten by Chemical Investment Bank.

Crossroads Oil and Melrose agreement

CROSSROADS OIL Group and Melrose Group have entered into an agreement under which Melrose is to invest £1m and could eventually own up to 47.5 per cent of Crossroads' enlarged capital.

Melrose is to subscribe for 5m new shares at 20p each in USM-quoted Crossroads, which in turn is to acquire, in two phases, an interest in joint ventures with Melrose, satisfied in Crossroads shares.

The proposals will be put to shareholders at an EGM on July 9.

Mr Robert Adair, chairman of Melrose, is to join the Crossroads board as an executive director and Mr Simon Pendock of Crossroads will hold a similar post at Melrose.

The London offices of the two companies are to be merged, aiding the Crossroads programme to cut overheads.

The subscription proceeds will help accelerate Crossroads' US onshore development drilling programme.

For the six months to September 30 Crossroads incurred an unchanged operating loss of £80,112. The after-tax loss emerged at £106,903. Profits of £267,368 last time included exceptional revenue of £377,142.

Crossroads' joint venture investment is calculated on an earn-out basis, under which its stake will be between 20 and 40 per cent, and which could involve the issue of up to 33.9m shares.

Crossroads is involved in the onshore development of oil and gas in Louisiana and Texas.

CIA expands into Italy with Blufin stake

By Gary Mead, Marketing Correspondent

CIA GROUP, the London-based media buying and planning group, has expanded into Italy via a stake in Blufin, parent company of the Medianetwork group of companies.

The USM-quoted group is buying a 5 per cent stake in Blufin, for L2.5bn cash (£1.1m) and 400,000 shares from Blugroup, the privately-owned Italian company.

CIA regards the move as essential to help it take advantage of the growing pan-Europeanisation of media buying and planning.

The Medianetwork group includes Unilever, Quaker and Electrolux, among its clients.

Chinese joint property venture for Stonehill

STONEHILL Holdings, the property management group, said that Cathay International Investment (Beijing Xiyuan), a newly formed subsidiary, is subscribing £16.2m for a 50 per cent equity investment in a joint venture, Beijing Xiyuan Landmark, in China.

Stonehill was acquired by Cathay International United Investments, the China-based property development company, in February through a reverse takeover.

Beijing Xiyuan Hotel, owned by the Beijing municipal government, will subscribe for a 35 per cent equity stake in the joint venture company and 5 per cent will be subscribed by Beijing Jin Peng property development company, owned by a financial arm of the Beijing municipal government.

The venture will operate and develop existing businesses on a property of 68,000 sq m which comprises a hotel, shopping centre and office buildings.

NEWS DIGEST

Ivory & Sime ahead to £4.9m

IVORY & SIME, the investment managers which handle £3.3bn of funds, reported an increase of 7.5 per cent in pre-tax profits to £4.9m for the year to April 30.

The previous year produced £4.52m but was adjusted to £4.91m, including gains on disposals, under FRS 3.

Turnover rose to £14.4m (£13.9m) while administrative expenses were virtually unchanged for the fourth successive year. That led to operating profits increasing by 12.5 per cent to £3.98m (£3.65m).

Funds under management grew 12.7 per cent to £3.3bn, reflecting the attracting of additional funds, notably from North America and Japan, and relatively buoyant stock markets worldwide in sterling terms.

Earnings per share were 10.75p (9p and 10.38p under FRS 3), the growth rate boosted by the reduced number of shares in issue following the purchase and cancellation of 2.25m shares.

The final dividend is 4.75p to lift the total to 6.5p (5.75p).

Turkey Trust

The strength of Turkish equities on the Istanbul stock exchange was behind a substantial advance in net assets at the Turkey Trust.

The value per share at April 30 was 272p, a rise of 84 per cent on the 148.06p standing at the trust's October year-end. The Istanbul stock exchange index rose 74 per cent in sterling terms over the same period.

By June 15, net asset value had risen to 320p per share.

Net losses for the six months to end-April were £60,000 (profits of £62,000) reflecting the absence of income from gilts. Losses per share emerged at 0.61p (earnings of 0.63p).

Kembrey

Kembrey, a maker of electrical connectors and accessories, returned to profit in the second half of 1992-93, overcoming the first half loss, and Mr David Burnet, chairman, said he expected a further recovery in the current year.

Pre-tax profit for the 53 weeks to April 3 emerged at £11,000 – better than the directors expected at halfway when a loss of £114,000 was reported. The previous year's deficit was £347,000.

Mr Burnet said that no clear trend had emerged for the current year, but he hoped that profits would improve and borrowings decline further. He said that the weight of any improvement would probably be heavily biased towards the second half.

Turnover was lower at £22m (£27.4m). Extraordinary costs in the year fell from £741,000 to £441,000 and related to losses on the disposal of non-core businesses Despro and Dalforsan. Redundancies throughout the group cost £189,000.

Net borrowings have come down by £1.27m to £4.3m. After the extraordinary items and the cost of the proposed dividend of 0.155p (0.15p), there was a deficiency on the profits and loss account of £472,000 (£1.14m) which was met from reserves.

Earnings per share were 0.04p (1.24p losses).

Teesside

Teesside Holdings, the unquoted owner of the port of Tees & Hartlepool, announced pre-tax profits of £11.3m on turnover of £43.8m for the 12 months to March 31 – the first full year since the port's privatisation early in 1992.

The company said the profit figure could not be compared with similar pre-tax profits of £11.3m for the previous year because of changes in the company's financial structure arising from the sale of the port to the Teesside Holdings consortium.

Turnover, however, had risen by 10 per cent.

Tees & Hartlepool was the first and most controversial of five trust ports privatisations that took place last year. Its sale for £180m to Teesside Holdings aroused bitter resentment from rival bidders.

Last November the port lost a valuable contract to import and export cars for Nissan, the Japanese car manufacturer with a plant in Sunderland.

Mr Bill Andrews, chairman, said the loss of the contract had come as "a great disappointment", but the company was using its ample resources to invest in new dockside facilities to replace and increase business for the future.

Chester Waterworks

Chester Waterworks turned in pre-tax profits of £2.17m for the year ended March 31, against £2.45m for the previous 15 months.

Turnover came to £5.64m, against £6.58m.

Earnings per share amounted to 617.7p, while a recommended final dividend of 150p makes a total for the year of 225p.

Tinsley Robor

Despite reorganisation and rationalisation costs, Tinsley Robor, the specialist printing and packaging group, achieved profits of £147,000 in its second half to finish the 12 months to March 31 with a modest pre-tax balance of £15,000.

The outcome – on turnover ahead 17 per cent to £27.5m – compared with a deficit of £581,000 last time.

After a higher tax charge, losses per share emerged at 0.4p (2.4p). The dividend is again passed.

Borrowings at the year-end were cut from £6.7m to £4.8m, reducing gearing to 56.7 per cent (77.4 per cent).

Mountview Estates

Reduced interest charges enabled Mountview Estates, the property concern, to raise pre-tax profits from £6.56m to £6.79m in the year ended March 31.

Turnover dropped from £13.7m to £13.4m and operating profits were marginally lower at £7.16m (£7.22m), interest took £365,895 (£661,954). Earnings per share came to 99.3p (95.8p).

The recommended final dividend is raised from 10p to 12p for a total of 20p (18p).

United Drug

United Drug, the Irish pharmaceuticals and consumer products group, lifted pre-tax profit from I£1.4m to I£1.54m (£1.5m) in the half year ended March 31.

Turnover rose 69 per cent to I£61.4m, reflecting the first time inclusion of Alchem and satisfactory performance from other divisions.

Trading conditions in the Republic were slack and there was higher than expected borrowing costs, said Mr Martin Rafferty, chairman.

Earnings per share rose only 1 per cent to 7.69p (7.61p). Although the effective tax rate came down from 42 per cent to 34 per cent, the number of shares in issue was greatly increased.

The interim dividend is 2.2p (2.05p).

Clyde Blowers

Despite recording a first-half loss before tax of £17,632, against a £33,723 profit, Clyde Blowers hoisted its interim dividend from 0.83p to 4p.

Mr JA McColl, chairman, said the decision was in recognition of progress now being made and would reflect "the pattern of profit recognition that we have the potential to achieve". In addition, he said there was a need to reduce the excessive imbalance between the interim and final dividends – last year's final was 7.07p.

He said he expected the operating loss of £205,163 (£56,174) to be reduced in the second half, with improved profitability from boiler cleaning equipment beginning to come through during the latter part of this year. The factory workload was high until the end of the current year.

Sturtevant Engineering, acquired in April, had a healthy order book and plans were currently being implemented to increase turnover and profits of its material handling and vacuuming systems.

Turnover for the half year to February 28 was £2.27m (£2.01m) and losses per share came to 1.76p (2.52p earnings).

Craig & Rose

Taking in £187,000 from the sale of land and investments pushed Craig & Rose back into profit in 1992.

Pre-tax the figure came to £38,000, compared with a loss of £20,000.

Turnover of the group, which makes paint and varnish, was little changed at £5.68m (£5.62m). Earnings per share worked through at 8.25p (losses 5p) and the dividend is again 14.25p with a proposed final of 12.5p.

James Crean

James Crean, the Dublin-based industrial holding company, has sold three of its Irish-based distribution businesses to Allegro Holdings for £5.35m.

The companies which have been sold are Tennant & Ruttle Distribution, JC Distribution and David J Thompson & Son. A further consideration is likely to be paid in respect of these companies' results for the period from January 1 until June 11 1993.

The sale does not include the Tennant & Ruttle property which is retained by Crean. This property is valued at between £1.5m and £2m.

Sales of the three companies for 1992 were £28.8m and profits before tax and rationalisation costs came to £997,000. Net assets at the end of 1992 were £3.8m.

Crean said the disposals were for "strategic reasons". It added that it had no plans to sell JCM, which distributes Mars confectionery products in Ireland on behalf of Masterfoods.

PUBLIC WORKS LOAN BOARD RATES
Effective June 15

Years	Quota loans* [illegible]†	[illegible]††	maturity§
1			
Over 1 up to 2			5¾
Over 2 up to 3	6⅛	6⅛	6⅝
Over 3 up to 4	6½	6½	7
Over 4 up to 5	6¾	6⅝	7⅜
Over 5 up to 6	7	7	7¾
Over 6 up to 7	7⅛	7¼	8
Over 7 up to 8	7⅜	7⅜	8⅜
Over 8 up to 9	7½	7⅝	8⅝
Over 9 up to 10	7⅝	7⅞	8⅞
Over 10 up to 15	7⅞	8	9
Over 15 up to 25	8½	8⅞	9⅜
Over 25	9¼	8⅞	9⅝
	9½	9⅝	9⅝

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Tin prices touch fresh 20-year lows on LME

By Kenneth Gooding, Mining Correspondent

DESPERATE CONDITIONS in the tin industry were reflected yesterday across the world as prices in London touched fresh 20-year lows while in Kuala Lumpur sellers were so appalled by the prices offered that in effect they staged a strike.

For only the second time in its 40-year history the Kuala Lumpur tin market failed to fix a price because of a rule requiring a daily turnover of at least ten tonnes. "At present unrealistic prices, nobody wants to sell tin," Mr Nazir Ariff, mansging director of Datuk Keramat Smelting, told Reuter.

London dealers said buyers had been waiting for tin to fall to $5,000 a tonne, well below most mines' production costs, before putting in any substantial orders.

At one stage yesterday the London Metal Exchange three months delivery tin price fell to $5,070 a tonne, after dropping by $135 a tonne or 3 per cent on Monday and Tuesday. In late trading it recovered to $5,112.50, up $17.50 from Tuesday's close.

Analysts warned that tin producers faced more hardship. The market was still suffering from the impact of producer price support schemes that for many years held prices artificially high and encouraged over-production. This support ended in 1985 when the International Tin Council's buffer stock operations collapsed in 1985, leaving 100,000 tonnes of tin stocks overhanging the market. Since then the Association of Tin Producing Countries, on which countries accounting for about 60 per cent of production are represented, has attempted to limit exports, wear down the stocks and keep prices up.

"There is now widespread frustration among members of the ATPC at the futility of the export scheme. The feeling is growing that export curbs should be scrapped and everyone should go out there and produce and export all they can," said Mr Ted Arnold, analyst at the Merrill Lynch financial services group. This would cause prices to fall to a level whera marginal producers would be swept away.

Mr Fidelis Madavo, analyst at the Commodities Research Unit consultancy organisation, said the tin market was in deficit last year with consumption 184,500 tonnes and production 176,300. Thare was another 4,000-tonne deficit in the first quarter of 1993 but stocks, at abont 40,000 tonnes, roughly double the required level, were weighing heavily on sentiment.

He said the ATPC's efforts had been undermined by substantial exports from China and because Russia, previously a small net importer, was now a net exporter.

Dozens of tin mines around the world have already closed and last month Malaysia Mining Corporation, one of the world's biggest producers, said that, after suffering three successive years of losses, it would close all its tin mines.

'End of an era' in sugar market

By David Blackwell

THE DEMISE of central buying agencies for raw sugar in the former Soviet Union and China has ended tbe era of large-scale bulk raw sugar prices, according to the June sugar market report from E.D. & F. Man, the London trading bouse.

This change in the nature of the market goes some way towards explaining why news of the smallest Cuban sugar barvest for 30 years - 4.2m tonnes - failed to boost world prices. "In both China and Russia imports have, by and large, been decentralised. The resulting trend towards disparate purchases is not conducive to speculative hype," says the report.

In addition, changing trade policies and depreciating currencies in eastern Europe had left the market guessing about import quantities. Consumption was also difficult to estimate for a large majority of the developing countries with sensitive incomes.

Man described the fall in the Cuban harvest from 7m tonnes last year as "a major blow" to the country's sugar industry. While the extent of any recovery next year was difficult to gauge, the certainty of continuing economic problems and a potentially lower cane yield did not bode well.

India prepares for small jute crop

By Kunal Bosa in Calcutta

IN SPITE of the favourable weather, India, tbe largest grower of jute, will produce a small crop of about 6.5m bales (180 kg each) during the season beginning next montb. That would be down some 300,000 bales from the estimated 1992-93 crop, but in the preceding two years as much as 9m bales were harvested.

The quality of the next crop will be good, bowever, as the overflowing canals and ponds will allow proper retting (softening) of jute.

Farmers in Assam, north Bengal and Bihar, hava been unable to realise adequate prices for raw jute this season, with tbe government price support agency remaining virtually inactive. So they have reduced plantings of the crop. The heavy carry over stocks from 1991-92 of nearly 3m bales kept prices below the government's recommended minimum.

According to industry and trade officials, a recent recovery in jute prices should continue into the 1993-94 season because it will open with stocks of only about 1.6m bales. The total supply of 8.1m bales will just be enough to meet the mill industry's requirement of 7.5m bales and village level consumption of 600,000 bales. There will, however, be no surplus at tha and of the next season.

India's jute season must open with stocks equivalent to at least two months' fibre supply to the mills, as the new crop starts arriving in the market in volume from September. India will have to find a solution to the problem by importing fibre from Bangladesh, which exports about 1.6m bales a year. But Bangladesh may not have much surplus either in 1993-94 when its crop is expected to be only 4.5m bales, down from 5.2m bales in 1992-93. It certainly is not going to bail out India at the cost of its regular jute buyers.

Jnte exports, which acconnt for 28 per cent of Bangladesh'a annual export income, rose in 1992-93 as world market prices fell by about 14 per cent, agricultnre officials said, reports Reuter from Dhaka. The country expects to earn $430m from exports of 1.51m bales of raw jnte and 594,000 tonnes of jute goods in 1992-93. In 1991-92 it earned $387.63m from exports of 1.4m bales of raw jute and 496,000 tonnes of goods.

Law of diminishing returns hits world fish catch

John Madeley reports on a crisis caused by over-exploitation of limited resources

THE WORLD fish catch declined in 1992 for the third consecntive year and fisheries experts say that gross over-fishing is wrecking chances of increasing output.

According to recent figures from the United Nations Fcod and Agriculture Organisation, the 1992 catch was must under 97m tonnes compared with a record 100m tonnes in 1989. Until then the world fish catch had risen steadily, from little over 20m tonnes in the early 1950s. In both 1990 and 1991 the catch fell back from the 1989 peak.

The overall figures hide the even steeper decline in fish caught at sea. In 1992, the marine catch totalled about 80m tonnes, down from about 86m tonnes in 1989. Catches from inland waters are continuing to grow, from 14m tonnes in 1989 to 17m tonnes last year.

"We are going through a crisis in world fishing," says FAO fisheries specialist Mr Robin Welcomme. "There are strains showing in the system." All the major fish resources in the world are under stress and to some extent over-fished, he believes.

The FAO says that fish has been harvested under the misconception that natural stocks are an unlimited natural resource, "incapable of being affected by fishing pressure".

According to Mr Welcomme, the drop in sea catches is due to a large over-capacity in fisheries equipment around the world – "This makes for overfishing and means that fishing grounds are exploited long after they should be".

"When people see others making money from fisheries, they invest in new fishing boats and equipment," says Mr John Caddy, the chief of FAO's marine resources division. "At first the increased investment leads to increased output, but now it is leading to a decline."

With the protection afforded by the 200-mile exclusive economic zones, agreed under the Law of the Sea treaty, many governmants of devaloping grounds have invested heavily in deep sea fishing fleets. "They assume that the more money they put in, the more they will get out, but that is not the way it works," says Mr Caddy.

By using "vacuum cleaner" technology, large commercial trawlers have wrecked the inshore fishing grounds of some developing countries, and the livalihoods of small-scale fishermen.

In an effort to increase their shrimp catch, fishermen in parts of South Asia are destroying the coastal mangrove forests, but as these are fish nurseries the catches soon tail off, often within two years.

Fisheries experts believe that the only hope of raising the world's overall fish catch is for much better management of sea fishing and the FAO is supporting projects that help countries to manage their fisheries sectors.

The northern Mediterranean, the Gulf of Thailand, the southern part of the North Sea and the seas of south-east Asia are the most overfished areas. "The trouble is that countries that are supposed to know best, including the European Community, have done nothing to stop overfishing," says one expert.

China continues to be the world's largest fish producer with a rise in output in 1992, mostly reflecting higher inland catches.

Hard times ahead for Ecuador's shrimp farmers

By Raymond Colitt in Quito

FOLLOWING RECORD exports last year, there are signs that Ecuador's shrimp industry may be heading for a slump. Rising costs, low productivity and a lack of investment capital are raising doubts about whether the country, the world's fourth largest shrimp-cultivator, will be able to maintain its market ahare.

Double-digit growth figures in 1991 and 1992 took total production of whole shrimps to 125,000 tonnes, worth US$526m. But export prices for Ecuador's high quality white shrimps dropped consistently from $4.20 in 1986 to $3.10 in 1992.

Notwithstanding its strong growth, Ecuador's shrimp industry compares unfavourably with its Asian competitors. Productivity is less than half Thailand's 2,500 kg a hectare, for example.

"Had there not been an increase in the cultivation area, exports may have dropped between 10 and 15 per cent," says Mr Luis Villacis, president of the National Federation of Shrimp Exporters: "Our productivity has been seriously affected by pollutants and diseases."

Besides lacking the aggressive government support of its competitors, Ecuador's shrimp farmers are facing a series of problems.

- The price of diesel fuel, used to operate the pumps that continuously change the water in the cultivating pools, has risen by 70 per cent since the government began cutting energy subsidies last September.
- High shipping costs out of Ecuador will continue to constrain profit margins in the future. For a container of shrimps heading to Europe, an Ecuadorian exporter pays a tariff of $7,500, while in a Chilaan port that tariff equals $3,500.
- An increase in piracy in the Gulf of Guayaquil has resulted in the loss of nearly $1m worth of shrimps being shipped to the packaging sites. Military action has been ineffective and shrimp farmers have resorted to hiring privata security forces.

Industry analysts say that productivity could be boosted significantly if diseases were controlled, nutrition improved and breeding pool sizes optimised. But state funds for research have been cut back considerably and with interest rates high and investment capital in short suply the private sector seems unlikely to be able address these problems for some time.

One advantage that Ecuador has in the world market is that it is at present the sole supplier of the vannamei, a white shrimp which is favoured by consumers in the US, which takes more than 70 per cent of Ecuador's exports.

Mr Tovarevic's pigs go wild for acorns

Kerin Hope on a Serbian farmer's answer to soaring feed costs

WHEN THE price of animal feed soared by 500 per cent because of UN sanctions against Yugoslavia, Mr Toma Tovarevic moved his 1,300 pigs to a wood near Belgrade to rear them on acorns.

Mr Tovarevic, who claims to he Serhia's largest pig producer, says that veterinarians were afraid his pure-hred Yorkshires would never survive the rigours of life in the wild.

"I was willing to take the risk. Otherwise, I'd be selling at well below cost," he says. "In fact, it's worked out well."

The pigs that hurtle out of the undergrowth in response to the sound of Mr Tovarevic's jeep look the picture of health. They have the run of 28,000 hectares (70,000 acres) of state-owned oak and poplar woods besida the Sava river, which provides them with a snpply of extra protein in the form of newts and frogs.

"They'll eat anything they find in this wood. I give them a little corn at night and in the morning, but my feeding costs are down by more than 80 per cent," he says.

Mr Tovarevic pays nothing for using the Kupinovo wood. He took advantage of a new law that opened up state forests to pasturage by local residents. His main expense was building pig shelters, which are roofed with metal plates from a hankrupt newspaper printing plant.

'It takes an extra month to get pigs raised in the open to market weight. But the quality of the meat is better and you don't have as much illness as with pigs kept in sties.'

Mr Danilo Viskovic, a Belgrada University veterinarian, says: "It takes an extra month to get pigs raised in the open to market weight. Bnt tha quality of the meat is better and you don't have as much illness as with pigs kept in sties."

Mr Tovarevic has also moved 150 beef cattle to the wood. He plans to add 500 sheep. "The numbers would triple if it were still possihle to export," he says.

Meat production in Serbia is down by an estimated 30 per cent this year. Sanctions have eliminated a flourishing export trade in beef and lamb, mainly to the Middle East. In addition, pork and baby beef was exported to Greece and Italy.

Serbia earned about $87m in 1990 from exports of meat and meat products, mostly ham, salami and bacon supplied to the former Soviet Union.

"We had well developed export arrangements for the Middle East. To avoid having to export live animals, we slaughtered here according to Islamic practica and sent butchered meat as air freight," says Mr Milorad Gilic of Srbcoop, a leading meat producer.

Srbcoop earned $7m from meat exports to Middle East countries in 1990, much of it produced on its own farms. Another $4m worth went to western Europe.

Domestic sales are also shrinking as Serbia's economic position worsens. With hyper-inflation taking hold, meat prices are rising by at least 100 per cent each week. Few Serbian families in towns can afford to eat meat more than once or twice a month.

In villages around Belgrade, pigs are being slaughtered at home to provide stores of bacon and ham rather than being sent to market.

"It's not just that fewer people can afford to buy fresh meat. Our products plant may have to close because salami and sausages are getting too expensive," Mr Gilic says.

CIS aluminium shake-out seen continuing

By David Lascelles, Resources Editor

MORE NORMAL conditions are likely to return to the depressed aluminium market by the end of 1994, Mr Allen Born, the chairman and chief executive officer of Amax said yesterday.

Amax is in the process of effecting a merger with Cyprus Minerals in the course of which Amax will spin off its large aluminium arm, Alumax.

Mr Born, speaking in London, said that this year and next would see a continuing shake-out in the former Soviet Union where excess capacity was depressing the aluminium markets. He believed that the Russians might close some of the capacity down, and develop more fabricating operations to absorb output.

"There is a need for more discipline in these markets," he said.

Mr Born also said the outlook for copper "looks good", though only for low cost producers.

WORLD COMMODITIES PRICES

MARKET REPORT

London COCOA futures finished with gains of up to £19 a tonne in very active conditions with the market making another attempt to break out of its recent range. The jump was aided by sterling's weakness. Some traders thought prices might rise further to meet producers' asking prices, now possibly only about £10 above the market. Robusta COFFEE futures ended near the lows reached early in the day after news of a rise in US stocks. The September position closed at $915 a tonne, down $6. The London GOLD price staged another early rise, encouraged by renewed buying in New York, but ran into resistance at $371 a troy ounce. Gains were trimmed by profit-taking before a late buying wave rallied the market to $369.35 an ounce at the close, up $3.60 on the day. The London Metal Exchange COPPER re-tested resistance above $1,850 a tonne for three months metal as short-term sentiment was aided by a recent tightening of forward premiums and caution ahead of end-June labour contract expiries in the US and Chile. The price ended $11 up at $1,857 a tonne.

Compiled from Reuters

London Markets

SPOT MARKETS		+ or -
Crude oil (per barrel FOB)(Aug)		+ or -
Dubai	$15.56-5.68z	+0.11
Brent Blend (dated)	$17.34-7.36	+0.05
Brent Blend (Aug)	$17.69-7.71	+0.09
W.T.I (1 pm est)	$18.15-9.17z	+0.11
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$200-202	
Gas Oil	$184-185	
Heavy Fuel Oil	$56-60	
Naphtha	$172-174	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$369.35	+3.60
Silver (per troy oz)♣	431.0c	+4.0
Platinum (per troy oz)	$379.50	+3.15
Palladium (per troy oz)	$127.75	+1.75
Copper (US Producer)	88.50	
Lead (US Producer)	34.93c	
Tin (Kuala Lumpur market)	n/a	
Tin (New York)	233.0c	-3.5
Zinc (US Prime Western)	62.0c	
Cattle (live weight)	140.95p	-3.52*
Sheep (live weight)†♠	109.26p	-6.25*
Pigs (live weight)†	87.25p	-1.76*
London daily sugar (raw)	$261.7	-2.2
London daily sugar (white)	$280.0	-3.2
Tate and Lyle export price	£297.5	
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£168.5†	+2.0
Wheat (US Dark Northern)	£141.5z	
Rubber (Jul)♥	57.75p	+0.25
Rubber (Aug)♥	58.00p	+0.25
Rubber (KL RSS No 1 Jul)	209.0m	-0.5
Coconut oil (Philippines)§	$425.0v	-2.5
Palm Oil (Malaysian)§	$332.5y	
Copra (Philippines)§	$278.0	-1.0
Soyabeans (US)	£175.5u	+1.5
Cotton "A" index	58.30c	-0.15
Woollops (64s Super)	357p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Sep. z-Aug. v-Jul/Aug. u-Jul. t-Jun ♥London physical. §CIF Rotterdam. ♣Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR - London FOX ($ per tonne)

White	Close	Previous	High/Low	
Aug	283.80	285.00	285.80	281.10
Oct	277.00	280.50	280.50	276.10
Dec	276.00	281.00	281.60	276.00
Mar	280.00	284.60	284.80	280.00
May	284.00		284.00	283.80
Aug	288.80		288.80	

White 2267 (935) Paris- White (FFr per tonne): Aug 1669.21 Oct 1580.66

CRUDE OIL - IPE $/barrel

	Latest	Previous	High/Low	
Aug	17.67	17.45	17.73	17.50
Sep	17.89	17.70	17.94	17.74
Oct	18.12	17.92	18.12	17.96
Nov	18.16	18.10	18.19	18.19
IPE Index	17.39	17.52		

Turnover 21409 (54168)

GAS OIL - IPE $/tonne

	Close	Previous	High/Low	
Jul	163.75	164.00	164.50	163.00
Aug	165.75	165.75	166.25	165.00
Sep	168.00	167.75	168.50	167.25
Oct	171.75	171.50	171.75	170.25
Nov	174.25	173.75	174.25	173.00
Dec	176.25	175.75	176.25	175.00
Jan	177.25	176.50	177.50	176.50
Feb	176.75	176.00	176.25	176.00
Mar	173.50		173.50	173.00

Turnover 15367 (10192) lots of 100 tonnes

WOOL

World wool markets are still far from buoyant as the end of the selling season approaches. It is hard to discern much growth in demand in any of the leading consuming countries, and there may be some softness in prices at next week's closing sales, when the total offering will be substantially larger than this week's. There is little change in prices for Bradford tops. The AWC market indicator yesterday was 450 cents a kilogram compared with 459 cents a week before.

COCOA - London FOX £/tonne

	Close	Previous	High/Low	
Jul	680	664	680	667
Sep	694	675	698	675
Dec	710	695	710	699
Mar	728	719	728	716
May	743	728	743	733
Jul	756	743	756	743
Sep	772	758	772	763
Mar	813	801	813	805

Turnover: 22917 (1974) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 15 693.75 (685.79) 10 day average for Jun 16 678.92 (678.29)

COFFEE - London FOX $/tonne

	Close	Previous	High/Low	
Jul	899	905	910	887
Sep	915	922	925	913
Nov	920	924	930	920
Jan	919	923	929	919
Mar	925		930	

Turnover: 2718 (2894) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 15 Comp. daily 55.24 (54.12) 15 day average 54.56 (54.56)

POTATOES - London FOX £/tonne

	Close	Previous	High/Low	
Apr	91.3	93.20	92.5	90.0
May	98.0	100.50	99.9	

Turnover 92 (87) lots of 20 tonnes.

SOYAMEAL - London FOX £/tonne

	Close	Previous	High/Low
Aug	148.3	145.80	

Turnover 0 (0) lots of 20 tonnes.

FREIGHT - London FOX $10/index point

	Close	Previous	High/Low	
Jun	1473	1475	1476	1470
Jul	1345	1340	1347	1338
Aug	1334	1330	1337	1333
Oct	1412	1420	1412	
Nov	1419		1419	
Jan	1430	1438	1430	
BFI	1534	1539		

Turnover 104 (160)

GRAINS - London FOX £/tonne

Wheat	Close	Previous	High/Low	
Sep	134.75	135.00	135.95	135.50
Nov	106.75	108.60	108.75	
Jan	108.55	108.40	108.55	108.40
Mar	111.20	111.15	111.20	110.90
May	113.60	113.55	113.60	113.40
Jun	115.60	115.55	115.60	115.40
Barley	**Close**	**Previous**	**High/Low**	
Sep	104.85	104.60	104.50	
Nov	107.60	107.55	107.60	107.25
Mar	113.65	113.40	113.65	113.40

Turnover: Wheat 104 (447), Barley 29 (114). Turnover lots of 100 tonnes.

PIGS - London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	115.5	115.90	115.5
Jul	107.0	107.80	107.0
Aug	101.5		102.0 101.5
Mar	104.9		103.5

Turnover:29 (15)lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 35,312 lots
Cash	1154-5	1154.5-5.5	1157	1156.5-7.0		
3 months	1178-9	1179-8.5	1183/1177	1181-1.5	1177-8	n/a lots
Copper, Grade A (£ per tonne)						Total daily turnover 39,427 lots
Cash	1234.5-5.5	1209.5-10.5	1223/1222	1222-2.5		
3 months	1242-3	1219-20	1244/1232.5	1232.5-3.0	1244-5	n/a lots
Lead (£ per tonne)						Total daily turnover 1,946 lots
Cash	265-5.5	257.5-8.0		260.5-1.0		
3 months	274.5-5.0	267.5-8.0	275/270	270.5-1.0	274-5	n/a lots
Nickel ($ per tonne)						Total daily turnover 4,884 lots
Cash	5535-40	5525-35	5641/5540	5641-2		
3 months	5601-5	5585-95	5610/5580	5600-5	5590-5	n/a lots
Tin ($ per tonne)						Total daily turnover 3,547 lots
Cash	5050-5	5030-40		5025-35		
3 months	5110-5	5090-100	5140/5070	5090-5	5120-30	n/a lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 10,499 lots
Cash	919.5-20.5	917-8	919.5	919-9.5		
3 months	938.5-9.0	935-6	945/936	937.5-8.0	937.5-8.0	n/a lots

LME Closing £/$ rate: SPOT: 1.5039 3 months: 1.4942 6 months: 1.4853 9 months: 1.4790

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	369.20-369.50	
Opening	369.10-369.60	
Morning fix	370.00	245.758
Afternoon fix	368.60	244.681
Day's High	370.60-371.20	
Day's low	368.00-368.30	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.21	6 months	2.40
2 months	2.22	12 months	2.45
3 months	2.35		

Silver fix	p/troy oz	US cts equiv
Spot	285.60	431.50
3 months	289.60	434.85
6 months	293.70	438.70
12 months	301.80	446.55

GOLD COINS

	$ price	£ equivalent
Krugerrand	369.50-372.00	243.00-245.00
Maple leaf	376.45-378.85	
New Sovereign	88.00-91.00	58.00-60.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
1150	40	64	15	26
1175	27	50	30	37
1200	17	38	45	50
Copper (Grade A)	Calls		Puts	
1800	92	118	37	62
1850	63	92	58	85
1900	43	70	87	112
Coffee	Jul	Sep	Jul	Sep
850	49	80	-	15
900	4	47	5	34
950	1	23	51	63
Cocoa	Jul	Sep	Jul	Sep
650	30	53	-	5
675	6	36	1	17
700	-	22	20	28
Brent Crude	Aug	Dec	Aug	Dec
1800	17	-	-	53
1850	-	-	50	-
1900	-	-	-	-

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	370.3	369.6	370.4	368.2
Jul	370.7	370.0	0	0
Aug	371.5	370.8	371.8	368.7
Oct	373.1	372.4	373.5	370.4
Dec	374.7	374.0	375.0	372.0
Feb	376.3	375.6	376.6	375.8
Apr	377.9	377.2	377.5	376.5
Jun	379.5	378.8	379.0	377.5
Aug	381.2	380.5	379.8	379.9

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	383.5	380.7	384.5	380.7
Oct	382.7	379.9	383.5	380.0
Jun	383.5	380.7	383.0	381.0
Apr	384.0	381.2	382.5	382.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	432.9	428.2	0	0
Jul	433.3	428.8	435.0	427.0
Aug	434.9	430.4	433.0	431.0
Sep	436.4	431.9	438.0	430.0
Dec	441.1	436.5	443.0	435.0
Jan	441.7	437.1	0	0
Mar	445.6	440.9	446.0	440.0
May	449.0	444.3	448.0	443.5
Jul	452.1	447.3	450.0	449.5
Sep	455.5	450.7	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	82.95	82.70	83.00	82.60
Jul	83.15	82.55	83.40	82.60
Aug	83.35	82.80	83.40	82.90
Sep	83.55	83.00	83.85	83.05
Oct	83.65	83.15	0	0
Nov	83.75	83.30	0	0
Dec	83.90	83.40	84.20	83.50
Jan	84.00	83.55	83.85	83.80
Feb	84.15	83.65	84.00	84.00
Mar	84.30	83.80	84.25	84.15

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jul	18.83	18.58	18.85	18.64
Aug	19.17	18.90	19.20	18.96
Sep	19.41	19.13	19.46	19.24
Oct	19.59	19.36	19.61	19.44
Nov	19.69	19.46	19.71	19.50
Dec	18.77	19.55	19.81	19.61
Jan	19.86	19.63	19.86	18.71
Feb	19.90	19.68	19.91	19.77
Mar	19.97	19.72	19.07	19.82
Apr	12.90	19.75	19.96	19.85

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	52.60	52.00	52.70	51.95
Aug	53.25	52.71	53.35	52.70
Sep	54.25	53.76	54.35	53.80
Oct	55.35	54.83	55.40	54.90
Nov	56.50	55.88	56.50	56.20
Dec	57.50	56.86	57.50	57.00
Jan	58.00	57.48	58.00	57.60
Feb	57.90	57.31	58.00	57.80
Mar	56.85	56.26	56.90	56.60
Apr	55.85	55.06	55.60	55.60

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	859	854	864	850
Sep	893	888	895	885
Dec	933	928	938	925
Mar	971	972	975	007
May	994	995	996	993
Jul	1015	1017	1023	1015
Sep	1040	1041	1040	1030
Dec	1071	1072	1074	1071
Mar	1108	1109	1104	1093
May	1105	0	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	59.20	61.30	60.65	58.40
Sep	61.05	63.20	62.00	60.50
Dec	64.10	66.00	65.60	63.20
Mar	66.20	68.30	67.00	60.50
May	67.80	70.00	70.00	66.00
Jul	69.25	71.60	0	0
Sep	70.75	73.15	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	10.82	10.80	10.72	10.39
Oct	10.86	11.17	11.15	10.73
Mar	10.65	10.93	10.87	10.60
May	10.60	10.80	10.73	10.57
Jul	10.40	10.66	10.53	10.40
Oct	10.30	10.52	10.30	10.30

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	58.97	59.35	59.56	58.70
Oct	57.67	58.25	58.30	57.75
Dec	57.46	58.05	58.00	57.30
Mar	58.45	59.05	58.95	58.40
May	59.20	59.73	59.39	59.14
Jul	59.80	60.30	59.90	59.80
Oct	59.87	60.15	59.50	59.80
Dec	60.00	60.25	60.25	60.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	111.55	107.40	111.70	108.90
Sep	114.95	110.85	114.88	110.25
Nov	117.40	113.25	117.40	113.10
Jan	118.80	115.25	110.60	115.75
Mar	119.80	117.00	119.80	117.50
May	120.80	118.00	0	0
Jul	120.25	118.00	120.50	120.00
Sep	120.25	118.00	0	0
Nov	120.25	118.00	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

Jun.16	Jun.15	mnth ago	yr ago
1660.3	1650.2	1687.7	1594.6

DOW JONES (Base: Dec. 31 1974 = 100)

	Jun.15	Jun.14	mnth ago	yr ago
Spot	125.51	120.57	119.18	117.10
Futures	131.27	121.11	121.69	122.06

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	586/0	582/6	587/4	581/0
Aug	584/2	580/4	585/4	579/0
Sep	581/2	577/0	582/2	576/0
Nov	531/2	577/6	582/2	576/0
Jan	587/6	585/0	586/4	582/4
Mar	594/0	590/6	594/4	589/6
May	597/4	594/4	596/4	592/4
Jul	600/4	596/2	601/0	594/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.33	20.19	20.39	20.17
Aug	20.46	20.36	20.53	20.30
Sep	20.59	20.50	20.64	20.42
Oct	20.71	20.64	20.73	20.55
Dec	20.93	20.82	20.99	20.77
Jan	21.05	20.92	21.10	20.90
Mar	21.25	21.16	21.25	21.15
May	21.45	21.35	21.45	21.30

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	184.9	186.1	186.4	184.6
Aug	184.9	185.3	185.9	184.2
Sep	184.8	184.9	185.7	184.1
Oct	184.8	184.8	185.8	184.0
Dec	186.4	186.1	186.2	184.2
Jan	185.6	185.2	185.8	184.8
Mar	186.2	186.5	186.5	185.3
May	137.5	186.9	137.5	186.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	213/4	212/6	213/6	211/4
Sep	219/6	218/6	220/0	217/6
Dec	228/0	226/4	228/2	225/6
Mar	235/6	234/6	236/2	233/6
May	241/0	239/4	241/0	239/2
Jul	244/6	243/2	245/0	242/2
Sep	242/4	241/4	0	0
Dec	242/2	241/6	243/0	241/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	278/4	281/0	281/2	278/0
Sep	283/2	284/4	285/0	282/4
Dec	294/6	296/0	296/0	294/0
Mar	301/0	301/6	301/4	300/0
May	300/2	300/4	301/4	300/0
Jul	300/2	301/4	302/0	300/2

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	76.825	76.950	77.075	76.575
Aug	74.550	74.675	74.650	74.525
Oct	75.100	75.225	75.300	70.025
Dec	75.075	75.125	75.200	74.925
Feb	74.750	74.800	74.925	74.700
Apr	75.775	75.800	75.900	75.550
Jun	72.825	72.750	73.025	72.700

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	50.850	51.250	51.000	50.500
Jul	47.675	47.925	48.225	47.650
Aug	45.600	45.550	45.850	45.300
Oct	40.550	40.200	40.650	40.150
Dec	40.900	40.350	40.925	40.300
Feb	41.000	40.200	41.200	40.300
Apr	40.300	39.575	40.600	39.600
Jun	45.825	45.275	45.900	45.450

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	33.250	33.325	33.825	32.800
Aug	32.825	32.925	33.500	32.450
Feb	39.850	39.375	39.875	38.300
Mar	39.025	39.025	0	0
May	40.700	40.700	0	0
Jul	41.200	41.300	0	41.200

LONDON STOCK EXCHANGE

Shares advance as rate hopes revive

By Terry Byland, UK Stock Market Editor

DEVELOPMENTS in the currency markets revived hopes among UK equity investors that a cut in German interest rates might open the door for Mr Kenneth Clarke, the UK chancellor of the exchequer, to reduce base rates in Britain. A recovery of 13 points to 2,883 took the FT-SE 100 Index to the top end of its trading range, but traders again warned that the impending expiry in stock index futures was exerting pressure on the equity market.

The stock market appeared satisfied with the important economic speech from the new chancellor in the City of London on Tuesday evening. His confirmation that no changes of substance in economic policy are planned encouraged confidence in the stock market.

Share prices opened lower in London, suhdued hy Wall Street'a fall of 22 Dow points overnight, but quickly turned npwards when the stock index futures opened strongly. With the June contract on the FT-SE Index axpiring on Friday, attention is now focused on the Septemher contract which traded comfortably above 2,900 again yesterday.

Base rate optimism, calmed down by the relaxed tone of the speech from the thancellor, returned to life at mid-morning when the DM hegan to fall after comments from German government sources were read as implying a quickening pace of German rate cuts. At the same time, the move towards the US dollar benefited overseas earning stocks in the London market.

News of a disappointing fall of 0.2 per cent in April retail sales, while hardly encouraging evidence for recovery in the domestic economy or corporate profits, was seen a strengthening the chances for a cut in base rates. The Public Sector Borrowing requirement for May, slightly below some foracasts, did nothing to change views in stock market on government horrowing prospects.

The FT-SE Index advanced to a day's peak of 2,888.3, hut again showed unwillingness to break through into what would ba seen as peak-challenging territory. Some analysts, pointing to the upward pull on share prices as the big securities houses grappled with positions in stock index futures, warned that the top end of the market range has yet to he convincingly broached.

The FT-SE Mid 250 Index also rallied, althougb lesa aggressively, closing 6.9 up at 3,312, just 1.4 under the peak reached a week ago.

Seaq volume was slow to develop but increased as basket trading between equities and stock index futures was joined by at least one genuine investment programme. By the close, the Seaq total stood at 607.3m shares; the focus on the Footsie-listed stocks occasioned hy futures-related trading reduced business in non-Footsie issues to only about 51 per cent of the day's total, significantly lower than usual. On Tuesday, Seaq volume of 512.3m shares brought in retail business worth £1.16bn, a comfortably profitable level from the point of view of the London-based securities houses.

While London market strategists refused to demonstrate too much enthusiasm on the prospects for the meeting this morning of the Bundesbank'a policy council, for whicb no press conference was planned, it was clear yesterday that interest rate optimism has remained a significant factor for UK investors.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ASDA Group†	11,900	71½	+½	De La Rue†	630	898	+6	MB Caradon†	1,500	280		Siebe†	877	483	-1
Abbey National†	1,500	420	+7	Devro	1,000	216	+1	MEPC	422	398	-6½	Slough Ests	1,100	208	+3
Albert Fisher	2,400	60		Eastern Elect.	297	472	+2	MFI	2,200	137	+4	Smith (W.H.) A	288	497	+2
Allied-Lyons†	3,100	537	-2	East Midland Elect.	578	458		Manweb	509	527	+5	Smith & Nephew†	3,400	142	+½
Anglian Water†	1,100	484	+14	Eng China Clays	893	435	+6	Marks & Spencer†	3,800	305	-1	SmKl Beecham†	2,000	448	+7½
Argos	104	310	+1	Enterprise Oil†	2,100	469	+4	Midlands Elect.	280	470	-4	SmKl Beecham Uts.†	271	380	+5
Argyll Group†	3,900	340	-3	Eurotunnel Units	111	420	-2	Morrison (Wm.)	3,300	155		Smiths Inds.	2,900	350	-7
Arjo Wiggins†	227	182	+1	FKI	378	136½	-1½	NFC†	7,800	249	-8	Southern Elect.†	239	487	+2
Ass. Brit. Foods†	1,100	475	+6	Fisons†	5,200	172	+4	NatWest Bank†	3,200	475	+1	South Wales Elect.	87	548	+1
Ass. Brit. Ports	1,300	433	+5	Foreign & Col. I.T.	1,000	230	+1	National Power†	2,800	364		South West Water	466	488	+6
BAA†	1,200	728	-6	Forte†	8,200	220	+5	Next	601	165	+1½	South West. Elect.	431	482	+2
BAT Inds.†	5,200	428		Gen. Accident†	832	578	+2	North West Water†	1,800	474	+12	Southern Water	118	509	+4
BET	2,400	109		General Elect.†	4,400	338	+1	Northern Elect.	558	514	+5	Standard Chartd.†	2,100	[illegible]	+26
BICC	1,200	385	-6	Glaxo†	4,100	594	-6	Northern Foods†	4,700	251	-7	Storehouse	1,100	206	-1
BOC†	974	688	+8	Glynwed Int.	1,200	302	+10	Norweb	790	501	+1	Sun Alliance†	2,200	350	+1
BP†	8,100	309½	+2	Granada†	4,800	415	+6	Pearson†	803	483	-1	T&N	1,000	185	-2
BPB Inds.	1,100	231	+1	Grand Met.†	5,300	412	-1	P & O†	1,200	637	+1	TI Group†	1,100	345	+8
BT†	6,900	425	+3½	GUS A†	1,000	1720	+30	Pilkington	1,400	129		TSB†	3,300	193	
BTR†	6,500	359	-5	GRE†	1,600	177	-1	PowerGen†	2,300	383		Tarmac	2,800	137½	+½
Bank of Scotland†	3,300	140½	+1½	GKN	2,100	466	-1	Prudential†	5,400	324	+5	Tate & Lyle†	692	392	-2
Barclays†	5,500	465	+½	Guinness†	4,400	489	+4	RMC	862	781	+3	Taylor Woodrow	2,100	103	-1
Bass†	2,000	482	+7	HSBC (75p shs)†	1,200	857	+7	RTZ†	1,700	652½	-½	Tesco†	8,900	217½	+½
Blue Circle†	1,300	252	-7	Hammerson 'A'	155	326	-5	Racal	1,700	228	+1	Thames Water†	2,100	476	+5
Booker	58	388		Hanson†	2,400	230	+1½	Rank Org.†	620	757	+8	Thorn EMI†	718	882	+2
Boots†	3,300	442	+7	Hanson Warrants	543	22½	+¼	Reckitt & Colman†	466	579		Tomkins†	2,600	237	
Bowater†	697	479	-8	Harrisons Crosfield	668	178		Redland†	914	486	-8	Trafalgar House	587	105	
Brit. Aerospace	2,600	401	+8	Hillsdown	3,100	148	-2	Reed Int.†	1,700	852	-1	Unigate	2,400	346	-5
British Airways†	970	295	+1	IMI	782	284	+6	Rentokil†	1,100	186	+2	Unilever†	1,900	1036	-12
British Gas†	5,800	301	+6	ICI†	3,100	701	-5	Reuters†	824	1325	-14	United Biscuits†	1,000	337	+8
British Land	2,500	308	+6	Inchcape†	1,300	584	-2	Rolls Royce	4,200	140½		Utd. Newspapers	487	570	+1
British Steel†	9,000	104		Johnson Matthey	219	462	-2	Rothmans†	537	630	+11	Vodafone†	3,200	451	+7
Bunzl	1,100	127		Kingfisher†	2,000	568	+4	Ryl Bk Scotland†	1,200	282	-5	Warburg (SG)	38	725	
Burmah Castrol†	319	686	+4	Kwik Save†	220	727	-5	Royal Insurance†	2,900	287	+4	Wellcome†	2,400	715	-5
Burton	1,700	86	+1	Ladbroke†	7,400	178	+7½	Saatchi	2,000	169	+6	Welsh Water	741	578	+3
Cable & Wire.†	1,500	745	+11	Land Securities†	1,800	588	+6	Sainsbury†	1,100	488	+4	Wessex Water	865	577	+7
Cadbury Schweppes†	1,200	458	-5	Laporte	221	639	+4	Scottish & New.†	2,100	470	+1	Whitbread 'A'†	1,200	403	+6
Calor Group	42	242	-1	Legal & General†	1,100	465	+5	Scot. Hydro-Elect.†	1,000	330	+2	Williams Hldgs.†	2,800	302	
Carlton Comms.†	382	776	+7	Lloyds Abbey	344	435		Scottish Power†	3,100	321	+4	Willis Corroon	328	207	+1
Coats Viyella†	5,000	236½	+6½	Lloyds Bank†	1,700	575	+5	Sears†	7,800	98		Wimpey	487	172	+1
Comm. Union†	1,000	580	+1	LASMO†	2,800	158	+1	Sedgwick	2,300	180		Wolseley	347	623	
Cookson	2,000	213	+3	London Elect.	415	463	+2	Seeboard	814	525	+4	Yorkshire Elect.	100	512	-1
Courtaulds†	2,200	544	+5	Lonrho	4,700	105		Severn Trent Water†	1,800	496	+8	Yorkshire Water	624	489	+8
Dalgety	808	455		Lucas	761	136	-1	Shell Transport†	3,200	626	+2	Zeneca†	1,200	623	+7

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
Jun 7	Jun 21	Jul 5
Option Declarations:		
Jun 17	Jul 1	Jul 15
Last Dealings:		
Jun 18	Jul 2	Jul 16
Account Day:		
Jun 28	Jul 12	Jul 26

*New time dealings may take place from 8.30am two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2883.0 +13.0	3212.0 +6.9	1423.44 +5.34

	Jun 16	Day's change %	Jun 15	Jun 14	Jun 11	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2883.0	+0.5	2870.0	2885.5	2861.0	2508.4	5.99	4.00	20.76	48.49
FT-SE Mid 250	3212.0	+0.2	3205.1	3213.2	3202.0	2635.3	5.74	3.98	22.06	41.69
FT-SE-A 350	1437.7	+0.4	1432.0	1438.0	1428.6	1270.0	5.93	3.92	21.05	22.01
FT-SE SmallCap	1637.78	+0.1	1636.84	1638.70	1634.14		4.31	3.48	32.66	21.55
FT-SE SmallCap ex Inv Trusts	1644.70		1644.35	1646.43	1642.48		4.76	3.65	30.47	22.72
FT-A ALL-SHARE	1423.44	+0.4	1418.10	1424.50	1414.77	1255.10	5.63	3.89	21.51	22.44
1 CAPITAL GOODS(213)	[illegible]									
2 Building Materials(27)	[illegible]									
3 Contracting, Construction(29)	[illegible]									
4 Electricals(15)	[illegible]									
5 Electronics(37)	[illegible]									
6 Engineering-Aerospace(7)	[illegible]									
7 Engineering-General(51)	[illegible]									
8 Metals & Metal Forming(11)	[illegible]									
9 Motors(18)	[illegible]									
10 Other Industrials(18)	[illegible]									
21 CONSUMER GROUP(236)	[illegible]									
22 Brewers and Distillers(29)	[illegible]									
25 Food Manufacturing(22)	[illegible]									
26 Food Retailing(18)	[illegible]									
27 Health & Household(30)	[illegible]									
29 Hotels and Leisure(28)	[illegible]									
30 Media(33)	[illegible]									
31 Packaging and Paper(24)	[illegible]									
34 Stores(39)	[illegible]									
35 Textiles(20)	[illegible]									
40 OTHER GROUPS(140)	[illegible]									
41 Business Services(27)	[illegible]									
42 Chemicals(23)	[illegible]									
43 Conglomerates(11)	[illegible]									
44 Transport(15)	[illegible]									
45 Electricity(16)	[illegible]									
46 Telephone Networks(4)	[illegible]									
47 Water(13)	[illegible]									
48 Miscellaneous(31)	[illegible]									
49 INDUSTRIAL GROUP(589)	[illegible]									
51 Oil & Gas(18)	[illegible]									
59 "500" SHARE INDEX(606)	[illegible]									
61 FINANCIAL GROUP(99)	[illegible]									
62 Banks(9)	[illegible]									
65 Insurance (Life)(6)	[illegible]									
66 Insurance (Composite)(7)	[illegible]									
67 Insurance Brokers(10)	[illegible]									
68 Merchant Banks(6)	[illegible]									
69 Property(28)	[illegible]									
70 Other Financial(23)	[illegible]									
71 Investment Trusts(108)	[illegible]									
99 FT-A ALL-SHARE(883)	1423.44	+0.4	1418.10	1424.50	1414.77	1255.10	5.63	3.89	21.51	22.44

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]										
FT-SE Mid 250	[illegible]										
FT-SE-A 350	[illegible]										

Time of FT-SE 100 high: 2.37pm low: 8.40am

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Construction	[illegible]											
Health&H	[illegible]											
Water	[illegible]											
Banks	[illegible]											

[illegible]

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo,
Christine Buckley.

■ Other statistics, Page 18

New trust focuses on waters

THE RECENT upsurge in water shares, in the midst of the sector's preliminary results season, gathered further momentum yesterday, with good general buying of the sector said to have gained impetus from large-scale buying of the FT-SE 100 water constituents hy Smith New Court, the leading UK securities house. Over the past three trading sessions, water issues have risen more than 8 per cent.

The strong buying by Smith was associated with that company's participation in the launch of the new Johnson Fry Utilities Trust investment trust. The new trust is sponsored by Smith New Court Corporate Finance and distributed by Smith New Court Securities. The prospectus for the new trust, which will invest primarily in UK utility stocks, such as BT, British Gas and other water and electricity issues, was published yesterday.

Anglian Water outpaced its FT-SE 100 rivals yesterday, closing 14 higher at 484p, closely followed by North West Water, up 12 at 474p. Severn Trent, due to report this morning and 9 stronger at 496p, and Thames, 5 to the good at 476p. Northumbrian led tha smaller stocks forward, adding 14 at 577p. Yorkshire rose 9 to 489p.

Dealers also said the utilities were attracting keen support ahead of next Monday's market dehut hy Northern Ireland Electricity.

Rolls-Royce busy

Trading volume in aero engine manufacturer Rolls-Royce rose to 4.2m shares in good two-way business after suggestions in the market that Goldman Sachs, the US investment bank, may be planning to issue a warrant enabling overseas buyers to continue purchasing the stock, although foreign ownership levels are already at maximum permitted levels.

Rolls-Royce announced a week ago that foreign ownership of its shares had reached 29.5 per cent, the maximum allowed by the company's articles of association. As things stand, any further purchases hy non-UK investors would have to be relinquished or transferred to UK ownership, as soon as the company confirms the purchases.

However, Rolls-Royce said last week it would take no immediate action in the hope that its announcement would itself reduce further foreign purchases.

The suggested move by Goldman Sachs would appear to offer an alternative investment entry for overseas investors, for whom Rolls-Royce remains an attractive stock. However, there was no-one availahle at Goldman to comment on the suggestion. Rolls-Royce closed unchanged at 149½p.

Heavy Zeneca trade

A lata upsurge in Zeneca shares was ascribed to Robert Fleming Securities, the stockbroking arm of the merchant bank, which told clients that the rights issue "should definitely be taken up". Fleming's buy note triggared beavy demand for both classes of Zeneca shares, the most heavily traded issues on the London market yesterday. The £1.3bn rights issue closes on Monday.

Marginally easier during the morning, both classes of Zenaca ahares made rapld progress to close aharply higher on the day. The "old" settled 7 up at 623p, with 12m shares changing hands, while the "new" nil-paid rights added 5¾ at 21¼p on 15m traded.

Fleming analyat Mr John Doree said recent weakness in Zeneca shares was dua to lack of international interest: "Overseas intereat is near-zero." Bnt he forecast that domnestic institutions will ensure the issue will he taken up.

"Zeneca is on a 35 per cent yield premium to the market and given the potential to grow the dividend as fast as the markat in the long term, the shares look oversold and a ahort-term buy." Flemings also labelled ICI a "buy."

Standard Chartered

The recent meeting between Standard Chartered and a number of bank analysts, at which the bank described its current strategy, provided the spark for another burst of sustained buying interest in the shares which yeaterday reached their highest closing level for more than seven years.

The stock price settled a net 26 up at 795p, only a whisker from their all-time high of 807p reached in April 1986. Tha steep rise in the price was not, bowever, matched hy any sharp increase in trading volume. Nevertheless, turnover of 2.7m shares was at the high end of the scale.

Some analysts were surprised at the performance of Standard shares after Monday's meeting. "The meeting was positive but not wildly axciting," said one who attended. He said the UK business was still in a loss-making situation in the current year, despite cost-cutting, and that there would be a need for yet more provisions against bad debts.

International conglomerate BTR was hit sharply by a profit downgrada from BZW, the London investment bank. At the day's worst, the shares were down 10 at 354p, but they later recovered in line with a strong market trend to close 5 off at 359p after trading volume of 6.5m shares.

BZW trimmed its estimate for the current year's profit figures by £50m to £1,250m, citing tougher than predicted market conditions in Europe and "a more realistic currency situation". It kept its 1994 forecast at £1,450m.

Royal Insurance rose 4 to 287p after a buy recommendation from Kleinwort Benson Securities.

Royal Bank of Scotland dipped 6 to 282p amid hints of a broker downgrade.

Interim results up 71 per cent and ahead of City expectations moved the share price of Granada Group up 6 to 416p in trade of 4.2m while analysts set about upgrading their profits forecasts.

Positive views ranged virtually across the board in spite of the absence in the board's report of any hint of an economic recovery. Mr Hamish Dickson at Hoare Govett said: "It would be the icing on the cake if the recovery picks up."

Mr Roy Owens at Smith New Court said the interim results were a commendation to Granada's new management. The company, a largely cash generative concern, is expected to make further good progress and is viewed as undervalued by many leisure analysts.

In a patchy brewing sector, Guinness moved forward 4 to 489p. In Paris chairman Tony Greener was upbeat about the company's 1993 prospects, while Lehman Brothers, the UK securities house, recommended buying of LVMH, the French luxury goods manufacturer with which Guinness has a 24 per cent cross-holding.

Optimism over a turnround in Brazil pushed up Coats Viyella 6¾ to 236½p. Watchers saw the increased hopes as evidence of a recovery, much more than the recent consolidation in the Indian subsidiary said one analyst.

Fears over possible moves by Unilever to make a substantial US acquisition provided part of the reason behind the stock's fall of 12 to 1036p in modest volume. Following recent bouyancy, based on its optimism for growth in East Asia, some watchers are now pointing to its lack of a significant presence in the US.

But Ms Nicola Mallard at Charterhouse Tilney believed that the concern was premature. "It isn't going to happen immediately. First there has to be something to buy."

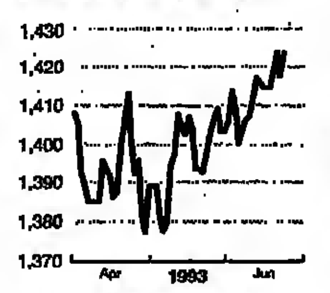
Among other engineering and aerospace stocks, British Aerospace gained eight to 401p on hopes that the long awaited £1.8bn Tornado order from Saudi Arabia was about to be signed.

Hints of a corporate deal and of a buy recommendation from Credit Lyonnais Laing, the stockbroker helped TI Group move up 8 to 345p.

A sigh of relief after the last of the expected major cash calls in property, a significant property portfolio acquisition, and positive noises from NatWest Securities, triggered a bounce in the sector.

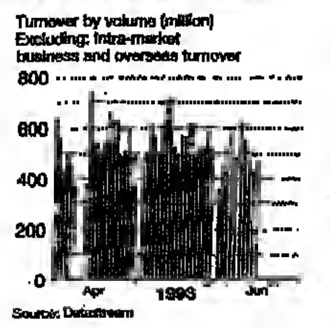
Hemingway Properties pleased the market with its £30.2m purchase of a property portfolio and the stock firmed 2½ to 31p. British Land added 6 at 309p, Brixton Estates went ahead 2 to 197p in modest trading, Slough Estates put on 3 at 208p, Great Portland Estates gained 3 at 180p and Clayform benefited from high demand and moved up 8 to 33p.

FT-A All-Share index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business and overseas turnover



Source: Datastream

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (138).

BRITISH FUNDS (1) Treas. 7¾pc '06, AMERICANS (3) American T & T, Cadiz Land, Lowe's, BANKS (6) Abbey Natl., Bk. Scot., HSBC (Hk), HSBC, Lloyds, Standard Chartd., BREWERS (2) Highlands, Mansfield, BLDG MATLS (4) Erwin, Haywood Williams, Marshalls, Unigroup, BUSINESS SERVS (1) Rolfe & Nolan, CHEMS (1) Croda, CONTG & CONSTRCN (3) Barratt Dev., Sheriff, Torax Hire, ELECTRICALS (2) Critchley, Kenwood Appliances, ELECTRICITY (2) Natl. Power, PowerGen, ELECTRONICS (7) Bowthorpe, Eurotherm, Hewlett-Packard, ISA, Logica, Macro 4, Quality Software, ENG GEN (2) Falrey, TI Group, FOOD RETAILING (1) Park, HOTELS & LEIS (4) David Lloyd, Forte, Granada, Savoy, INSCE BROKERS (1) Hogg, INV TRUSTS (51), MEDIA (10) Aegis, Anglia TV, Central ITV, Daily Mail, Johnston Press, Porta, & Sunderland, Shandwick, Ulster TV, VTR, Watmoughs, MISC (5) Copymore, Erskine Hse. 7¾pc Pf., Holders Tech., MOTORS (3) Lex, Perry, Trinity, OIL & GAS (2) Mobil, Villiers, OTHER FINCL (4) EFT, Edinburgh Fd. Mngrs., Jardine Strategic, Smith New Court, OTHER INDLS (3) Suter, Tex, Virten, PACKG, PAPER & PRINTG (4) Brit. Polythene, Filofax, Serif, Wace 5pc Pf., PROP (8) Bourne End, Cardiff, Clayform, Debenham Tewson, Hemingway, Molyneux, STORES (4) Goldsmiths, GUS, Oriflame, World of Leather, TEXTS (4) Alexandra Workwear, Dewhirst, Hollas, Stirling, SOUTH AFRICANS (1) Tongaat-Hulett, MINES (3) Cons. Murchison, Minorco, Navan 5pc Cv.

NEW LOWS (15).

BRITISH FUNDS (1) Exch. 13¼pc '94, AMERICANS (1) Gillette, BLDG MATLS (1) Explaura, BUSINESS SERVS (1) Penna, CHEMS (3) Anglo Utd., Plysu, Yorks., FOOD MANUF (2) Finlay (J), Sims, FOOD RETAILING (1) Kwik Save, MEDIA (2) Allied Radio 8pc Ln. '01, Blenheim, STORES (1) Hampden, TRANSPORT (2) BAA, Transport Dev.

FINANCIAL TIMES EQUITY INDICES

	June 16	June 15	June 14	June 11	June 10	Year ago	*High	*Low
Ordinary share	2253.2	2250.3	2262.9	2244.0	[illegible]	[illegible]	[illegible]	[illegible]
Ord. div. yield	4.11	4.12	4.10	4.12	[illegible]	[illegible]	[illegible]	[illegible]
Earning yld % full	4.87	4.87	4.83	4.83	[illegible]	[illegible]	[illegible]	[illegible]
P/E ratio net	26.29	26.29	25.92	26.55	[illegible]	[illegible]	[illegible]	[illegible]
P/E ratio nil	24.46	24.46	23.95	24.51	[illegible]	[illegible]	[illegible]	[illegible]
Gold Mines	173.9	169.8	170.3	179.6	[illegible]	[illegible]	[illegible]	[illegible]

*for 1993. Ordinary share index since compilation: high 2299.5 [illegible]. Gold Mines Index since compilation high: 734.7 15/2/83 - low 43.5 [illegible]. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2247.4	2253.1	2257.1	2254.8	2254.7	2262.3	2254.5	[illegible]	[illegible]	[illegible]	[illegible]

Volume	June 16	June 15	June 14	June 11	June 10	Year ago
SEAQ Bargains	28,150	27,738	29,297	[illegible]	[illegible]	[illegible]
Equity Turnover(£m)†	-	1158.3	1000.3	[illegible]	[illegible]	[illegible]
Equity Bargains†	-	33,254	32,888	[illegible]	[illegible]	[illegible]
Shares traded (mil)†	-	477.4	432.5	[illegible]	[illegible]	[illegible]

† Excluding intra-market business and overseas turnover.

London report and latest Share Index Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

RENEWED HOPES of a cut in both German and UK interest rates reversed Tuesday's falls in stock index futures, writes Joel Kibazo.

Hopes of a reduction in base rates, which had fuelled Monday's rise but faded on Tuesday, returned strongly yesterday. The June contract on the FT-SE 100 Index, which opened at 2,876, was in demand from the beginning as developments in the currency markets were taken to indicate a cut in German rates today. Such a move, traders argued, would allow a reduction in UK rates. This view was strengthened by the release of UK retail sales figures which were worse than expected.

Having moved steadily forward throughout the morning, June reached the day's high of 2,900 just ahead of Wall Street's opening. It came off the top to close at 2,889, a 6-point premium to the underlying cash market. Dealers continued to roll positions forward ahead of tomorrow's expiry of the June contract, which saw volume of 12,923. The September future had 6,854 lots transacted.

The expiry of the June stock options was the main feature in traded options and a significant contributor to the day's total turnover of 31,338 lots.

Amstrad, whose June options expired yesterday, traded 3,197 lots, followed by British Gas with 3,214, another with June expiry. GEC had volume of 1,150.

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

CROSSWORD

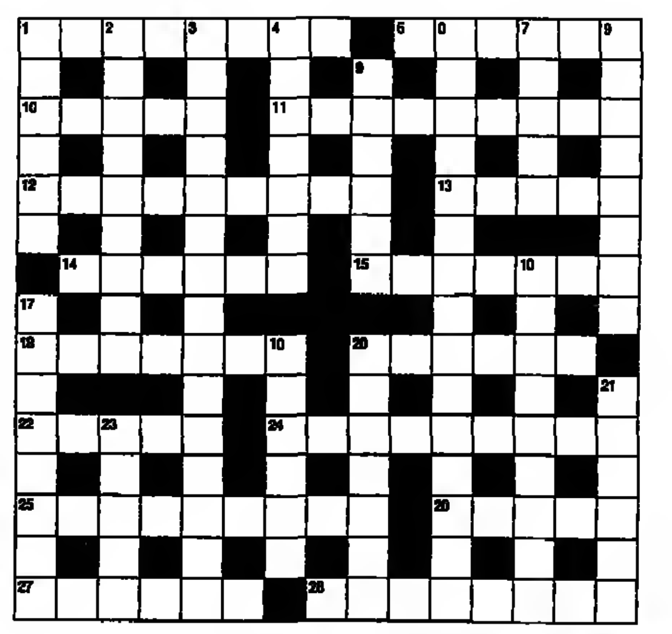
No.8,178 Set by GRIFFIN

ACROSS

1 Sinks? They're what people keep coal in! (8)
5 For ceremony order hat decoration (6)
10 Weapon in box "E" (5)
11 When rebuilding a bar steal gypsum (9)
12 Worn-out accountant admitted following once free (9)
13 Without skill back a bit more (5)
14 Idle Jack's first for burning (6)
15 Caught on back seat is rebuked (7)
18 Take control and start performing live (7)
20 For example ebbing stream entering grating (6)
22 Former student has taken to praise (5)
24 Leave it on suitably prepared raised area (9)
25 Queen takes recruits round bird colonies (9)
26 Question children (5)
27 Oust half-nude model (6)
28 Wing made out of ten parts (8)

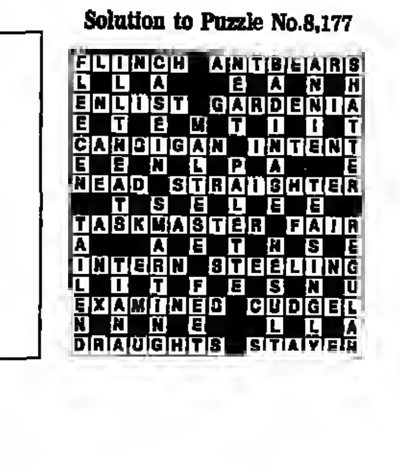
DOWN

1 Plan, say, lacking middle-class support (6)
2 A Parisian article on food that's inedible (9)
3 Fatal disease caused by computer virus? (8,7)
4 Name tea with improved flow (7)
6 What dentists must sit to qualify in? (4,11)
7 Mine contains a film which is small (5)
8 Women coming to a conclusion that's fishy? (8)
9 Gift of story books (6)
16 Friend going round sale is after mattress (9)
17 Fruit filling copied and developed (8)
19 Observer's blinking cover! (6)
20 Fat redhead's a mechanic (7)
21 Spend money on renovating Vine St (6)
23 Not getting round to raising weak flock (5)



JOTTER PAD

Solution to Puzzle No.8,177



LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17⅞xd	+⅛	20⅞	15⅞	14,489	2.5
Allegheny & W	♥	615p	+34	617p	399p	319.6	3.1
Amdahl		368p	+6	691p	302½p	411.0	0.9
Amer Cyanamid		34½	----	38⅝	31⅛	9,110	3.8
Amer Express		19⅞xd	+⅛	19½	14⅞	9,304	3.3
Amer T & T		41⅞xd	+⅛	41⅞	33⅛	55,589	2.0
Ameritech		61½	+1¼	62⅛	49	22,548	4.5
BankAmerica		29½xd	+1	35⅛	27⅛	10,283	3.0
Bankers NY		46⅝xd	+⅛	51⅛	42⅞	3,722	4.2
Bell Atlantic		37⅛	+⅛	38⅝	32¼	16,236	4.5
BellSouth		35½	+⅛	39⅞	32⅞	17,537	4.8
Bethlehem Steel	♥	11⅞xd	+⅛	13⅛	10	1,074	–
Bowater		1300pxd	–5	1582p	1283p	473.2	1.9
CPC		27⅞xd	–⅛	34⅞	26	4,317	3.0
Cadiz Land Inc	♥	183p	+2	183p	53p	–	–
California Engy		1358p	----	1478p	1086p	247.2	–
Chase Manhattan		19⅝xd	+⅛	24½	17⅞	3,063	3.9
Chrysler		30⅞xd	+¼	30⅞	21⅛	8,895	1.2
Citicorp		18⅛xd	----	20⅛	13⅛	6,625	–
Colgate-Palm		36⅞xd	+⅛	45⅝	35⅛	9,787	2.1
Cont'l Bank		1539p	+5	1877p	1278p	1,546	2.5
Dana		34¼xd	+⅛	36⅛	29⅛	1,585	2.9
Data General		657p	+9	851p	593p	181.3	–
Decora Inds	♥	141p	+2	148p	108p	–	–
Dun & Brad		38⅛	+⅛	42⅛	37⅛	6,889	4.0
Eaton		58⅞	+1⅛	66½	50⅞	2,875	2.3
Echlin		17⅞xd	+⅛	18⅞	15⅛	902.2	2.3
FPL		24⅞xd	+⅛	27⅞	23¼	4,473	6.3
Ford Motor		33⅝xd	–¼	38½	28⅛	16,412	1.9
Gen Elect		62⅛xd	+1⅛	62⅛	53⅞	50,687	2.6
General Host	♥	574p	+8	723p	565p	–	3.9
Gillette		31⅞xd	–⅛	42⅞	31⅛	6,908	1.7
Hasbro		20⅞	----	20⅞	20⅞	1,819	0.7
Honeywell		23⅞xd	+⅛	24⅛	30⅛	3,283	2.4
Houston Inds		29⅛	+¼	33¼	28¼	3,772	9.3
Ingersoll-Rand		21½xd	+¼	25	19⅛	2,350	2.0
Lockheed		41⅛	+⅞	42⅞	35⅛	2,538	3.2
Lowe's	h	2457p	+69	2487p	1573p	1,814	0.7
Merrill Lynch		48⅛xd	+½	50⅛	37	4,945	1.6
Morgan (JP)		43⅞xd	+⅛	49½	39¼	8,323	3.5
Morris (Philip)		92¼xd	–⅞	52⅞	30⅞	28,665	5.1
NYNEX		66	+1⅛	64⅛	52¼	12,186	4.9
Pall		11⅞xd	–⅛	15	11	1,377	1.8
Pennzoil		42xd	+⅛	43⅛	31⅞	1,711	4.5
Quaker Oats		47⅞xd	----	48⅛	39⅛	3,443	2.8
Rockwell		21⅛xd	+⅛	22⅞	18⅛	4,770	5.8
Rep NY		31⅞xd	+⅛	37⅛	29⅛	1,571	2.1
Sears, Roebuck		34⅞xd	+½	37⅞	28⅞	11,884	5.8
Sthwestern Bell	h	25⅝	+⅛	29⅛	23⅛	15,368	3.7
Sun Co		18⅛xd	----	21⅛	14⅛	1,713	7.0
Tenneco		36⅝xd	+⅛	33½	25½	5,188	5.8
Texaco		42⅛xd	+⅛	44⅛	37⅛	10,858	4.8
Time Warner	h	24⅛xd	–⅛	26	18⅝	9,079	0.7
Unitab	♥	428p	+7	480p	358p	194.8	–
US West		29⅛	+¼	30⅛	24⅛	12,123	4.9
Varity		2221p	+49	2268p	1686p	671.6	–
WMX Technologies		23⅞xd	+⅛	27⅛	19⅛	11,480	1.6
Whirlpool		3543pxd	+18	3720p	2824p	2,476	2.2
Woolworth	♥	18⅞	–⅛	21½	18⅛	2,483	3.7

CANADIANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbot Energy	♥	2p	----	2p	2p	–	–
Amer Barrick		1468p	+64	1643p	890½p	4,178	0.5
Bk Montreal	h	13⅛	+¼	13½	11⅛	3,256	4.3
Bk Nova Scot		1267p	+29	1428p	1111p	2,620	4.4
BC Gas	♥	760p	+18	847p	723p	–	3.9
BCE		23½	+⅛	26⅛	20⅝	7,187	5.5
Brascan	♥	578p	+1	721p	454p	476.7	9.5
Breakwater	♥	11½p	–1¼	18½p	10p	7.31	–
Can Imp Bk		1811p	+27	1616p	1226p	3,209	4.1
Can Pacific		1054p	+9	1085p	810p	3,302	1.5
[illegible]							

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

	Notes
Tilbury	✠†□
Travis Perkins	□
Tudor	✠
Unigroup	□
Waterhouse	✠
Wickes	□
Wolseley	✠†□

BUSINESS SERVICES

	Notes
ADT $	✠□
Adam & Harvey	
Air London	✠
African Lakes	
Autot'ed Sec	✠N□
BET	✠□
BMS Res	
BPP	✠
Barbour Index	†
Black & Edg	✠□
Bousled	□
Bridgend	✠†□
Brit Data Mangt	□
Brooks Service	
CRT	✠†□
Capita	✠h
Caskel	N□
Chiltern Capital AS	
Christie Group	
Chubb Security	◊□
Cormac	✠
Corp Servs	✠□
Dart	✠
Davis Service	N□
EW Fact	✠
Gardiner	□
Gardner	
Hays	
Hogg Ro[illegible]	
Holmes [illegible]	
Hunch W[illegible]	
ISS 9 DK[illegible]	
Inchcape	
Intl Food	
Johnson	
Lep	
MITIE	
Manpow[illegible]	
OIS Intl	
Page (M)[illegible]	
Penna	
Prime P[illegible]	
Proudfoot	
RCO	
REA	
Reed Exe[illegible]	
Reliance	
Rentokil	
Rolfe & N[illegible]	
Salvesen	
Scot Pick[illegible]	
Securigua[illegible]	
Select Ap[illegible]	
Serco	
Sherwood	
Sketchley	
Time Pro[illegible]	
Warner H[illegible]	
Welpac	
Wills Gro[illegible]	

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Notes	Price	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Greenwich Res		16	—	22¼	5	12.3	-
Hemlo Gold C$		£27⅞	+⅜	£27⅞	£23½	588.5	1.6
Iremla West I£	‡‡	48	+3	57	31	24.1	-
Kells Minls I£	††	12	—	13	8	0.29	-
Kenmare		9½	-¼	13½	8	9.51	-
Mefinga Res		17	+1	25½	13½	1.88	-
Navan Res I£		75	+3	76	25	12.8	-
5pc Ln Notes		75	+3	75	25	13.5	-
Oryx Gold		74	—	74	47	-	-
‡‡Ovoca Res I£		3½	—	3½	3½	0.24	-
RTZ		652½xd	+½	709	507	6,740	4.9
Vizcaya		5¼	—	5¾	2¼	2.06	-

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1230 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring +44 81-643 7181 (open 24 hours including weekends) or fax +44 81-770 0544, quoting the code FT3373. Reports will be sent the next working day, subject to availability. Please remember to state the weekly changing code above.

FT Cityline

Real time share prices and other stock market information is available through the FT Cityline International telephone service.
Annual subscription £250.00 stg.
Call +44 71-925 2128 for more details.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: *The most recent report and scheme particulars can be obtained free of charge from fund managers.*

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS. 071-637 5377						
S & W American	5	260.0	260.0	272.9	-0.7	0.78
S & W Capital	5	118.8	118.8	127.2	-0.4	1.65
S & W Cash	0	101.06	101.06	101.06	+0.01	5.26
S & W European	6	112.6	112.7	119.2	-1.1	[illegible]
S & W Far Eastern	5	150.3	151.8	160.7	-1.2	1.04
S & W Growth	5	125.4	127.5	134.8	-1.8	0.00
S & W Income	5	113.0	114.2	120.8	-0.8	1.28
S & W Magnum	6	125.0	125.0	134.3	-0.2	4.52
S & W Smllr Secs	5	218.1	325.1	344.0	-0.8	1.54
S & W Thoroughbred	5	144.5	144.5	153.2	-0.4	1.48

For Societe Generale Touche Remnant see Henderson

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sovereign Unit Tst Mngrs Ltd (1000)F						
15 Christchurch Rd, Bournemouth 0202 298422						
Cash	1	49.79	49.79	50.59	+0.01	5.3
Cradle Privision	5½	56.09	56.38	60.13	-0.01	7.9
Ethical	3½	32.64	33.52	35.83	-0.02	3.9
European Growth	5½	57.32	57.64	61.49	-0.40	0.0
Income	5½	52.14	52.60	56.15	+0.13	5.7
Intl Growth	5½	79.50	80.01	85.34	+0.56	3.0
Managed	5½	70.20	70.89	75.61	+0.37	3.8
UK Growth	5½	56.36	56.97	60.70	+0.12	4.4

	Bid Price	Offer Price	+ or -	Yield Gross
Robert Fleming Asset Mngmt Ltd				
Am Exempt	[illegible]	[illegible]	-0.34	1.03
Gen Exempt	£154.06	157.30	-1.91	3.62
Jap Exempt	[illegible]	[illegible]	[illegible]	0.00
Pacific Exempt	2155.39	[illegible]	-0.42	1.60
Contl Euro Exempt	2118.42	120.70	-1.35	2.54
Foreign & Colonial Unit Management Ltd				
Balanced Acc June 15	190.4	192.8	+1.8	2.54
Balanced Inc June 15	184.8	191.1	+0.8	3.54
Latin American Acc June 16	102.9	103.2	+1.1	3.64
Funds in Court*				
Capital May 14	596.16	582.37	—	3.67
Gross May 14	212.85	214.57	—	8.79
High Yield May 14	336.40	341.15	—	7.62
*Restricted to monies under Court control				
Govett (John) Unit Mngmt Ltd				
Managed Exempt	109.31	113.52	-0.05	3.33

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707
Gold Range (Pensions)

	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary Fund		157.2	-0.4	-

Provident Mutual Life Assc. Assn.
6 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord	417.8	439.8	+1	-
Managed Init	295.5	311.1	+0.7	-
Equity Ord	620.8	659.8	+1.6	-
Equity Init	443.4	466.7	+1.1	-
Index Linked Gilt Ord	194.0	204.2	—	-
Index Linked Gilt Init	143.3	150.8	—	-
Overseas Equity Ord	334.6	352.4	+0.8	-
Overseas Equity Init	236.8	249.3	+0.3	-
Property Ord	227.3	239.3	—	-
Property Init	160.8	169.3	—	-
Fixed Interest Ord	259.8	273.5	+1	-
Fixed Interest Init	183.8	193.5	+0.7	-
Deposit Ord	198.8	209.3	—	-
Deposit Init	139.1	146.4	—	-
Pension Funds				
Managed Ord	551.6	580.6	+1.4	-
Managed Init	390.2	410.7	+0.9	-
Equity Ord	855.8	900.8	+2.8	-
Equity Init	605.3	637.2	+1.9	-
Pen Idx Lkd Gilt Ord	220.9	232.5	—	-
Pen Idx Lkd Gilt Init	163.2	171.8	—	-
Overseas Equity Ord	389.0	409.5	+0.9	-
Overseas Equity Init	275.1	289.5	+0.2	-
Property Ord	290.3	305.6	+0.1	-
Property Init	205.4	216.2	+0.1	-
Fixed Interest Ord	337.8	355.7	+1.8	-
Fixed Interest Init	239.0	251.6	+0.2	-
Deposit Ord	287.5	302.8	—	-
Deposit Init	203.8	214.5	—	-

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222
Prufund

	Bid Price	Offer Price	+ or -	Yield Gross
Managed June 2	303.3	318.0	-1.7	-

Prudential Corporate Pension Funds
1 Stephen St, London W1P 2AP 0734 494852
Prudential Managed Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary Jun 9	2229.81	237.28	—	-
Equity Jun 9	2255.46	264.41	—	-

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323
Life Funds (First Series)

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	406.9	428.4	+1.70	-
Equity	510.5	537.4	+2.40	-
Property	220.4	232.0	—	-
International	399.8	420.9	+1.80	-
Japanese	115.4	121.6	-1.10	-
Asia Pacific	141.7	149.2	+1.10	-
European	108.1	113.8	+0.50	-
American	151.0	148.8	+2.60	-
Fixed Interest	336.2	353.9	+0.80	-
Index-Linked Gilt	185.7	195.5	—	-
Cash	220.0	231.8	—	-
Life Funds (Second Series)				
Managed	113.3	119.3	+0.50	-
Equity	109.8	116.0	+0.30	-
Property	100.8	105.9	—	-
International	123.5	130.1	+0.30	-
Japanese	115.7	151.8	-1.80	-
Asia Pacific	139.0	146.5	+1.18	-
European	107.1	112.8	+0.40	-
American	157.8	146.2	+2.60	-
Fixed Interest	120.4	133.1	+0.30	-
Index-Linked Gilt	118.7	125.0	—	-
Cash	109.1	114.6	—	-
Pension Funds				
Building Society	173.3	182.5	—	-
Managed (Init)	230.3	242.8	+1.30	-
Managed (Acc)	408.2	402.9	+2.60	-
Equity (Init)	265.3	281.6	+1.80	-
Equity (Acc)	526.7	554.6	+3.50	-
Property (Init)	142.5	150.1	—	-
Property (Acc)	282.4	297.8	—	-
International (Init)	237.4	249.9	+0.90	-
International (Acc)	470.2	495.0	+1.70	-
Fixed Interest (Init)	225.8	237.7	+0.80	-
Fixed Interest (Acc)	447.8	470.9	+1.20	-
Cash (Init)	153.9	162.1	-0.10	-
Cash (Acc)	305.2	321.8	—	-
Others				
Capital Guarantee Bond	100.1	105.4	+0.40	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	226.4	238.3	+1.6	-
UK Equity	216.7	227.9	+0.3	-
International	228.4	240.4	+1.7	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70000						
Prudential Guernsey Fd (Formerly Vanbrugh Guernsey Fd)						
Income (A & B)	5	210.8	210.8	221.4	+1.4	3.74
Growth (C & D)	5	317.5	317.5	334.4	+1.9	5
Royal Trust Jsy Fd Mngs Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	55.44	55.44d	57.73	-0.04	7.62
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond	5		16.18	17.04	-0.02	4.57
Sterling Bond	3		9.719	10.06	+0.01	6.58
Sterling Cap	—		42.51	42.53	—	5.41
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.32	102.32	105.35	+0.01	6.00
Gilt & Fixed Interest	5	118.04	118.04	122.38	+0.09	7.57
Blue Chip & Gilt Edged	5	90.63	90.63	93.62	-0.09	3.57
International Bond	3	135.37	135.37	142.57	+0.32	4.06
UK Equity	5	283.05	282.29	276.66	-1.14	1.23
International Equity	5	177.64	180.16	189.64	+0.11	0.36
Far Eastern	5	167.00	170.20	179.18	+1.35	0.00
European	5	125.95	126.61	133.27	-0.12	0.00
North American	5	346.27	348.14	366.50	+0.17	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	106.29	106.29	109.70	-0.01	7.05
Monthly Share	3	104.18	104.18d	107.59	-0.01	7.81

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Critical days for the dollar

THE DOLLAR enjoyed another rally against the D-Mark in European trading yesterday, with some dealers wondering whether the US currency was on the verge of the strategic move upwards that has been awaited all year, *writes James Blitz.*

The dollar has made several attempts at a sustained break through the DM1.67 level this year, only to fall back on fears that the US economic recovery was not powerful enough and that the D-Mark remained intrinsically strong.

However, at the close of European trading yesterday, the dollar appeared set for another test of the elusive DM1.67 figure, having risen more than 2 pfennigs on the day to close at DM1.6585.

For dollar bulls, the striking feature of yesterday's rally was that it came at a time when all the indicators ought to have triggered weakness in the US currency.

The Bundesbank disappointed those dealers who had expected an easing in monetary policy, leaving its repo rate on hold at 7.60 per cent.

Tuesday's consumer price inflation data, showing a smaller than expected moothly increase in US prices of 0.1 per cent, had also wiped away expectations that the Federal Reserve would soon raise short term interest rates, thereby reducing the premium on holding D-Marks. But this indicator has been mostly ignored by the market.

Instead, the D-Mark has been undermined by growing concerns about the weakness of the German economy and its budget deficit.

In Europe, the D-Mark fell against most currencies yesterday. It closed at minus 21 per cent on its exchange rate mechanism divergence indicator, its lowest level since August 1991. The unchanged repo rate also failed to prevent sterling closing stronger against the currency, a ¼ pfennig higher at DM2.4950.

Some dealers were also concerned that the Bundesbank was losing its grip on the setting of Europe-wide interest rate policy. It was striking yesterday that 3-month Dutch guilder were ⅜ of a percentage point below the corresponding German rate – but the Dutch currency remained at the top of the Dutch central bank's self-imposed limit against the D-Mark in the ERM grid.

Mr Avinash Persaud, an economist at UBS believes the trend of D-Mark weakness is set to continue. "The D-Mark is slowly losing its anchor status in the ERM," he said. He believes that, in several months time, the FX market's focus in Europe will be on the setting of French interest rates rather than German ones.

Mr Steve Hannah, of IBJ International, believes that another dollar setback will occur before the break through DM1.67 takes place. He believes that the two key elements of a sustained dollar rise are not in place: clear signs of a rise in US interest rates and certainty of the decline in German rates.

£ IN NEW YORK

June 16	Latest	Previous Close
£ Spot	1.5035-1.5045	1.5150 1.5160
1 month	0.35-0.34pm	0.36 0.35pm
3 months	1.01-0.98pm	1.01 0.98pm
12 months	3.21-3.13pm	3.15 3.05pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 16	Previous
8.30 am	79.7	79.8
9.00 am	79.7	79.7
10.00 am	79.7	79.7
11.00 am	79.6	79.7
Noon	79.5	79.7
1.00 pm	79.4	79.6
2.00 pm	79.4	79.6
3.00 pm	79.4	79.5
4.00 pm	79.4	79.5

CURRENCY RATES

Jun 16	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.943486	0.786159
U.S Dollar	3.00	1.42292	1.18883
Canadian $	5.17	1.82034	1.52051
Austrian Sch	6.75	16.2795	13.7714
Belgian Franc	6.25	47.5967	40.2300
Danish Krone	8.25	8.84772	7.48250
D-Mark	7.25	2.31196	1.95681
Dutch Guilder	6.25	2.59270	2.19458
French Franc	10	7.78366	6.58101
Italian Lira	10.00	2103.26	1776.77
Japanese Yen	2.50	149.407	126.337
Norway Krone	-	9.79132	8.27188
Spanish Peseta	-	176.826	149.519
Swedish Krona	11.50	10.3183	8.77832
Swiss Franc	5.00	2.08537	1.74806
Greek Drach	19	N/A	266.524
Irish Punt	-	N/A	0.801636

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 16	% Change from Central Rate	% Spread v Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	186.391	-3.37	4.15	56
Spanish Peseta	154.250	149.510	-3.07	3.83	54
Irish Punt	0.808628	0.801636	-0.88	1.52	42
Dutch Guilder	2.19672	2.19458	-0.10	0.74	0
Belgian Franc	40.2123	40.2300	0.04	0.60	2
D-Mark	1.94964	1.95681	0.37	0.28	-19
Danish Krone	7.43679	7.48250	0.61	0.03	-24
French Franc	6.53883	6.58101	0.65	0.00	-32

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jun 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4985 - 1.5185	1.5035 - 1.5045	0.36-0.34cpm	2.79	1.04-1.01pm	2.73
Canada	1.9225 - 1.9436	1.9235 - 1.9245	0.27-0.16cpm	1.34	0.65-0.51pm	1.21
Netherlands	2.7735 - 2.8026	2.7925 - 2.8025	¼-¾cdis	-1.07	½-¾dis	-0.80
Belgium	51.00 - 51.40	51.20 - 51.30	2-7cdis	-1.05	10-18dis	-1.01
Denmark	9.4500 - 9.5550	9.5360 - 9.5460	1½-2⅞oredis	-2.75	3¼-5⅞dis	-1.76

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls July	Calls September	Calls December	Puts July	Puts September	Puts December
117	1.62	1.92	2.02	-	0.30	0.85
118	0.72	1.23	-	0.09	0.58	1.25
116	0.15	0.72	1.00	-	1.04	-
120	-	0.37	0.64	-	1.06	-
121	-	0.16	0.40	-	-	-
Open Int	20,938	146,767	32,183	28,855	135,340	23,492

Estimated volume 48,194 † Total Open Interest 420,060
† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%
Adam & Company	6
Allied Trust Bank	6
AIB Bank	6
●Henry Ansbacher	6
B & C Merchant Bank	13
Bank of Baroda	6
Banco Bilbao Vizcaya	6
Bank of Cyprus	6
Bank of Ireland	6
Bank of India	6
Bank of Scotland	6
Barclays Bank	6
Brit Bk of Mid East	6
●Brown Shipley	6
CL Bank Nederland	6
Citibank NA	6
City Merchants Bank	6
Clydesdale Bank	6
The Co-operative Bank	6
Coutts & Co	6
Credit Lyonnais	6
Cyprus Popular Bank	6
Duncan Lawrie	6
Equatorial Bank plc	6
Exeter Bank Limited	7
Financial & Gen Bank	7
●Robert Fleming & Co	6
Girobank	6
●Guinness Mahon	6
Habib Bank AG Zurich	6
●Hambros Bank	6
Heritable & Gen Inv Bk	6
●Hill Samuel	6
C. Hoare & Co	6
Hongkong & Shanghai	6
Julian Hodge Bank	6
●Leopold Joseph & Sons	6
Lloyds Bank	6
Meghraj Bank Ltd	6
McDonnell Douglas Bk	6
Midland Bank	6
Mount Banking	6
NatWestminster	6
Nykredit Mortgage Bnk	6.5
●Rea Brothers	6
Roxburghe Bank Ltd	6
Royal Bk of Scotland	6
●Smith & Williman Secs	6
Standard Chartered	6
TSB	6
Unibank plc	6
●United Bk of Kuwait	6
Unity Trust Bank Plc	6
Western Trust	6
Whiteaway Laidlaw	6
Wimbledon & Sth West	7
Yorkshire Bank	6

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Expectations of cuts

DEALERS in German money markets remained confident that the Bundesbank would lower its short term interest rates soon, even though its repo rate remained unchanged yesterday, *writes James Blitz.*

In recent days, Bundesbank officials have led the market to think that monetary policy could be eased because of expectations that M3 money supply growth would come down.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Expectations of rate cutting were dampened yesterday after the Bundesbank announced that the cost of lending short term funds to commercial banks via the repo rate would remain unchanged at 7.60 per cent.

Short dated Euromark futures reflected some disappointment at the unchanged policy, with the September Euromark contract closed at 93.27, down 3 basis points on the day.

Nevertheless, at this level, the contract is still pricing nearly 100 basis points off 3-month German cash rates in the next twelve weeks, projecting 6.73 per cent in September.

That view reflects optimism that the Bundesbank will cut its official rates again, with an outside chance that the discount rate will be reduced at today's council meeting.

The Bundesbank has been concerned that cuts in German interest rates will lead to a depreciation of the D-Mark against the dollar and other currencies, leading to inflation. But it is striking that the D-Mark has continued to decline in recent weeks, despite unchanged German policy, leading to suggestions that it is the scale of the German recession that now concerns the FX market.

At the same time, European central banks take the view that they can cut rates below German levels whatever the Bundesbank does. The Danes, Italians and French have all cut rates in the past week.

Sterling markets were slightly more bullish for low UK base rated following Mr Kenneth Clarke's Mansion House Speech on Tuesday night.

The emphasis of Mr Clarke's speech was on fostering UK growth and this helped the September short sterling contract up 2 basis points on the day in close at 94.19.

Three-month sterling cash was ⅛ per cent softer at 5⅞ per cent, helped by the swift despatch of a small daily shortage of £550m in the discount market.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

هكذا من الأصل

WORLD STOCK MARKETS

CANADA

INDICES

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◆ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

**Saturday June 12: Taiwan Weighted Price 4,221.07, Korea Comp Ex. 785.86. ♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, 882.20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 28 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Wednesday, June 16, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Metal	4.7m	971	+3	NKK	3.2m	812	-11
Nippon Steel	4.4m	367	-5	Fujitsu Ltd	3.2m	761	+4
Mitsubishi Heavy	3.5m	681	-12	Nomura Sec	2.9m	2,030	-70
NEC Corp	3.6m	985		Toshiba Corp	2.7m	693	+3
Itochu Corp	3.9m	560		Hitachi Zosen	2.5m	606	+5

4 pm close June 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.40	3.9	24	148	13¼	13	13¼	+⅛
29⅞	20	A L Labs A	0.18	0.7	48	378	27⅝	27	27⅜	-¼
63½	54⅝	AMP Inc	1.00	2.5	22	2240	u63⅞	62½	62⅞	-⅛
72¾	55½	AMR			16	11404	67½	64¾	66	-2
2¼	1¾	ARX			13	71	2⅛	2	2⅛	+⅛
51½	29⅞	ASA	2.00	4.5	29	1034	45⅛	44⅜	44⅝	-⅝
30¾	22⅝	Abbott Lab	0.68	2.5	17	8426	27⅛	26	27⅛	+1
12⅝	16¼	Abitibi Pr	0.50	4.5	4	z100	11⅛	11⅛	11⅛	
14⅛	8¾	Acptncsin			53	67	12¾	12½	12¾	-⅛
11¾	10¾	ACM Gvt In	0.96	8.3		176	u11¾	11½	11½	-¼
10	9⅛	ACM GvOpp	0.80	8.2		4	9¾	9⅝	9¾	+⅛
9⅝	8¾	ACM Gvt Sp	0.56	0.4		180	9½	9⅜	9½	+⅛
11⅜	10½	ACM Gvt Sp	0.80	6.8		479	11⅛	11	11⅛	
11	9⅝	ACM Man	1.00	10.2		221	10⅝	10½	10⅝	+⅛
9⅜	8⅝	ACM Managd	0.72	0.1		618	8	8⅞	8⅞	-⅛
11	7¾	Acme Clevo	0.40	8.8	15	1230	u11⅛	10⅝	10⅝	-⅛
9¼	6½	Acme Elect			291	40	5⅞	8⅝	8⅝	-⅛
18	10⅜	Acuson			14	948	13	12⅝	12¾	-⅛
22¼	19⅝	Adams Expr	0.48	2.3	1	00	31⅛	31	21	
86	48½	Ad Micro	3.00	0.1		600	50½	48⅞	48⅞	-⅞
32¼	17⅝	Ad Micro P	6.00	14.3		027770	22⅛	20⅞	21	-¼
7¾	5½	Advest Grp	0.18	2.7	10	181	8	5⅞	8	
24¾	00	Advo Inc	0.06	0.3	22	00	31	20⅞	20⅞	+⅛
49⅝	41⅛	Aegon ADR	2.95	0.4	6	82	40⅛	45⅞	46	-¼
55⅞	43⅞	Aetna Lf	2.76	5.3	140	1348	53⅛	54⅝	54¼	
14½	11½	Afil A	0.26	1.6	51	2400	13½	13⅜	13½	+¼
32.21	26⅞	Aflac	0.40	1.2	17	1211	32	31⅝	32	+⅜
20⅛	16¾	Ahmanson	0.88	5.8	20	2379	17⅝	17⅜	17½	+⅛
7¾	4⅝	Aileen Inc			5	75	5¾	5½	5⅝	+⅛
48½	40⅝	Air Pr Chm	0.00	2.1	19	1761	41⅛	40¾	41	-¼
28½	18⅜	Airbrn Frt	0.30	1.2	96	604	24⅞	24⅛	24⅛	-¾
31½	18¾	Airgas Inc			35	185	28	28½	28¾	-⅛
14¾	10½	Airlease	1.00	10.8	12	82	u14⅞	14⅝	14⅞	+⅛
100	101	AlaPw8.16	0.18	7.9		2	103	105	103	
105½	102½	Alab 8.28C	8.28	7.9		1	104¾	104½	104½	
16	15⅝	Alaska Air	0.20	1.5	2	318	16⅞	d15⅝	15⅞	-⅛
17¾	14¼	Albany Int	0.35	2.1	117	280	16½	16	16½	-⅛
28¼	23½	AlCulbr 6	0.26	1.0	19	128	26½	26	26¾	+⅛

[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

Continued on next page

NYSE COMPOSITE PRICES

4 pm close June 16

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	S Anita Rl	1.36	7.2	16	148	18⅞	18⅛	18⅞	+⅝
20¾	16¼	SCOR US Cp	0.32	1.9	219	19	16⅞	16⅝	16⅞	-¼
28	20	SPS Techno	1.28	4.8	10	35	26¾	26⅛	26¾	+⅛
14½	12⅞	Sabine Rlt	1.04	7.6	18	58	13⅝	13¼	13⅝	+½
13¾	8⅞	Safecard	0.20	1.5	13	2074	13⅝	13	13½	+⅛
29½	16⅞	Safeg'd Sc			9	4	17¼	17¼	17¼	+⅛
24¾	16¼	SafetyKln	0.36	2.0	25	1790	18¼	17½	18	+½
18½	10⅞	Safeway			24	488	15⅛	14⅞	15	
3⅝	2	SafewayW96				75	3⅛	3	3	
44½	37½	StJoePaper	0.20	0.5	92	28	39¼	39	39	
37¾	31	StJoeL&P	1.78	4.8	14	2	36⅛	36⅛	36⅛	-¼
89¼	78	St Paul's	2.80	3.5	12	242	79⅞	79⅛	78⅞	+¾
9⅝	7⅞	Salant Crp			5	39	8¼	8⅞	8⅞	
75¼	42⅞	Sallie Mae	1.20	2.8	9	3788	44⅝	43⅞	43⅞	-1¼
13⅞	13	Salomon Br	0.36	2.7		264	13⅝	13¼	13¼	
41⅞	34	Salomoninc	0.24	1.7	18	870	37¼	36¾	36⅞	
26⅞	23¼	SanDgo G&E	1.48	5.8	14	302	25¾	25½	25⅝	-⅛
4⅝	3½	SantaFeEDu	0.40	10.5	158	143	4	3¾	3⅞	
11⅞	9⅛	SantaFeEPts	0.18	1.5	182	1344	10¾	10⅛	10⅝	+½
40¾	35¾	SantaFePac	2.80	7.4	13	104	38	37⅞	38	
18	12¾	SantaFeStn	0.19	0.6	17	4184	15¼	15½	15½	-⅛
31⅛	23⅜	Sara Lee	0.58	2.3	18	4021	25	24½	24¾	-¼
47⅛	40⅛	Scana Corp x	2.74	5.9	15	123	46⅞	46⅝	46¾	-⅛
49⅝	46	Scecorp	2.80	5.7	14	956	48¾	48⅜	48¾	+¼
36⅞	29⅞	SchererRP			28	882	31¼	30⅛	30¾	+¼
69⅜	47¾	SheringPl	1.80	2.8	18	3135	66	66	66	+1
66⅞	55⅜	Schl'berger	1.20	1.8	24	3898	66¾	65¼	65⅝	+⅛
25	18½	Schwab(C)	0.20	0.9	18	590	25⅛	24¼	24¼	-⅞
7¼	5⅝	Schwitzer			25	4	6⅞	6⅞	6⅞	-⅛
60	17¾	ScientAtln	0.12	0.4	49	3022	21⅞	21	21	-1
13¼	9⅛	Scotsmen	0.16	0.8	13	158	12½	12⅜	12½	+⅛
41	32¾	ScotPaper	0.80	2.5	18	2178	32¾	32⅜	32¾	-¼
20⅞	14¼	ScudderNAsF	0.21	1.8		106	20½	20¼	20½	+¼
9¾	7½	ScudderNEuF	0.16	1.7		291	9⅜	9¼	9⅜	+⅛
31½	19	SeaContB	0.70	2.4	9	3	29⅜	29⅜	29⅜	

- T -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low
9½	5½	TCBY Enter	0.20	2.5	34	66	6	7⅞
34⅞	27¾	TCF Financ	0.75	2.5	6	102	30⅛	29⅞
10	8¼	TCW Conv S	0.04	8.4		121	10	9⅞
37⅞	25⅝	TDK Corp A	0.41	1.2	28	21	35¼	35
3¾	2½	T I S Mtge	0.20	7.5	0	28	2⅞	2¼
34¼	26¼	TJX Cos	0.50	1.5	22	405	33	32⅞
19½	17½	TNP Enterp	1.63	9.2	15	112	17⅞	17⅝
69⅝	52½	TRW Inc	1.88	2.8	16	646	68¾	65⅞
25⅞	9⅝	T2 Medcl	0.19	8.9	9	4440	16⅜	15½
24¼	17⅛	Taiwan Fd				72	20⅛	19⅝
6¾	3⅛	Talleyind	0.42	8.9	17	102	6¼	6⅛
11½	8½	Talley Pf	1.00	9.2		6	11	10⅞
65	40¼	Tambrands	1.52	3.8	12	2406	40⅞	d38½
16⅝	8⅞	Tandem			22	2894	12⅞	12⅜
32⅞	24⅝	Tandy Corp	0.09	2.0	48	1287	29⅞	29½
13⅜	12	Taurus Mun	0.83	6.4		34	12⅞	12⅝
47⅝	40½	Teco Energ	1.92	4.2	17	423	45⅝	45⅜
27⅞	20⅛	Tektronix	0.60	2.9	21	1287	23¼	22⅞
5	1¼	Telecom Cp			16	367	4⅛	3⅝
23	18½	Teledyne	0.80	3.8	17	886	21	20
34⅝	29½	TeleEspSA	1.28	3.9	9	1288	33¼	32⅞
59⅞	44⅞	Telmex ADR	0.09	2.1	209	24255	46¾	45¾
52½	42¼	Templeinl	1.00	2.4	19	3153	42¼	d41⅜
19⅜	14⅞	TempltEmMk	0.38	2.1		292	18	18⅝
9⅛	8⅜	TempltGlob	0.72	8.2		105	8¾	8⅝
0	7¾	TempltGIFd	0.60	7.4		1790	8⅛	8
51½	39⅛	Tennecoinc	1.60	3.4	27	2261	47⅞	46½
28¾	21¾	Teppco Ptn	2.20	0.4	1E	119	28⅝	28¼
19⅛	13	Teradyne			28	3679	19⅝	18⅜
11⅞	6⅝	Terex	0.08	8.9	9	186	7¾	7⅞
4⅞	3⅝	Terra Inds			19	581	4	3⅞
6⅜	9	Tesoro Pet			1	240	6¼	5⅞
65¾	57⅝	Texaco	0.20	4.9	19	5048	65½	63⅝
53⅞	51¾	Texaco C x	3.20	6.2		7	51¾	21¾
28¾	21¼	Texas Ind	0.20	0.8	48	58	23⅝	23¼
69	45⅞	Texas Inst	0.72	1.0	23	8385	u70½	68⅝
19½	16¾	Texas Pac	0.40	2.1	28	17	18⅝	18¼
47⅞	41⅛	Texas Util	3.08	6.8	14	2187	45¼	44⅞
11⅞	18	Textl Pf	1.19	10.4		9	10⅝	10⅝

NASDAQ NATIONAL MARKET

4 pm close June 16

AMEX COMPOSITE PRICES

4 pm close June 16

FINANCIAL TIMES Thursday June 17 1993

AMERICA

Technology, airline losses restrain Dow

Wall Street

WEAKNESS in technology and airline shares restricted US stock markets to only modest gains yesterdsy morning, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 6.92 at 3,498.92. The more broadly hased Standard & Poor's 500 was 0.28 lower at 445.99, while the Amex composite was up 0.6 st 435.55, and the Nasdaq composite fell 2.57 to 694.77. Trading volume on tbe NYSE was 142m shares hy 1 pm.

The morning's economic news had little impact on the markets: industrial production rose 0.2 per ceot in May, capacity utilisation was unchanged, and housing starts jumped 2.4 per cent, all of which was in line witb analysts' expectstions. The figures, bowever, did oothing to dispel concern among investors that economic recovery may be stalling.

Altbough tbis means that inflstionary pressures In tbe economy should remain subdued, and interest rates low, it also means that corporate profitability will probsbly not improve over the next year as much as investors had hoped. A string of recent profits warnings from companies seem to have backed up that view, and have unnerved investors. Yesterday, there were further announcements of disappointing sales and earnings outlooks from major corporations.

Hewlett-Packard recorded one of tbe day's biggest declines, dropping $4½ to $82½ in volume of 2.2m shares after the chief executive was reported to have delivered a downheat assesment of Hewlett's secood half prospects at a meeting in Germany.

The company said later, bowever, that its views on its near-term prospects were still positive.

Other technology stocks fell in sympatby. Motorola slumped $1⅞ to $82¼, IBM dropped $¾ to $49¾, Compaq slipped $½ to $54⅝, and Digital Equipment gave up $⅛ at $42⅝.

USAir plunged $1¼ to $17⅝ after the airline said that its May revenues were lower than expected, and that it would report a loss in the second quarter and for the full-year 1993, although the losse would he smaller than incurred in 1992.

The rest of the airline sector was also weaker. Delta dropped $⅛ to $50⅝, AMR, parent of American Airlines, fell $1¼ to $66⅝, and UAL slipped $2 to $128⅝.

Cluh Med jumped $1⅞ to $25⅝ after the holiday group announced a bigger than expected improvement in second quarter earnings.

Also higher was Minnesota Mining & Manufacturing, whicb hounced back from recent losses to post a gain of $1⅞ at $109 as bargain hunters moved into the stock.

On the Nasdaq market, Price Co rose $5¼ to $37½ and Costco Wholesale climbed $1¼ to $18¼ on the news that the two discount warehouse retailers are to merge.

Canada

TORONTO saw a slide in real estate shares as the TSE-300 composite index edged 2.03 higher to 3889.82, in volume of 33.76m shares valued at C$291.6m. Advances outpaced declines by 312 to 245, with 290 issues flat.

The real estate and construction sector index fell by 65.12, or 2 per cent to 3,009.57.

SOUTH AFRICA

GOLD shares gave up some of their morning gains in afternoon trading, but found support by the close. The index ended 48, or 3 per cent, higher at 1,643. Industrials rose 12 to 4,641 and the overall index sdvanced 21 to 3,953.

EUROPE

Bourses replace Buba hopes with higher dollar

BOURSES turned their attention yesterday to the higher dollar, and its beneficiaries in corporate Europe, *writes Our Markets Staff.*

Interest rate hopes moved away from today's Bundesbank meeting, brokers Hoare Govett arguing that there is scope for core ERM countries to reduce their rates to as much as two percentage points below German rates, and for non-core countries to narrow their interest rate premiums significantly.

FRANKFURT saw flat repo rates as a poor augury for today's Bundesbank meeting. It was also treated to forecasts that west Germany's economy will not begin a lasting recovery until next spring, and to a furthsr weakening in the D-Mark/dollar rate.

Ths DAX index pushed up again to close 5.46 higher st 1,689.56. D-Mark weakness was keeping foreign investors out of the market at the moment, said Ms Barbara Altmann at B Metzler in Frankfurt, but German investors were attracted by the prospect of higher export margins.

Turnover eased from DM6.5bo to DM6.2bn. Antomotive stocks, particularly suppliers like the tyremaker, Continsntal, and the hattery manufacturer, Varta, were traded higher again with rises of DM4.20 to DM206.20 and DM4.30 to DM294.30 respectively, although Varta said again late in the day that it might have to cut its 1993 dividend.

The big three chemicals produced modest rises on the export margin argument, and Commerzbank extended Tuesday's strength with a rise of DM2.20 to DM305.70, this time on rumours of foreign stakebuilding, with the rest of the banking sector flat.

PARIS regained its uptrend on hopes for a further cut in domestic rates by the end of the month, irrespective of whether the Bundesbank eases today. Supported also by strength in the Matif, the dollar and Frencb franc, the CAC-40 index put on 20.95 or 1.1 per cent to 1,918.81 in turnover up to FFr3.3bn from Tuesday's FFr1.9bn.

Financials were active on the interest rate theme, with Bancaire gaining 5 per cent, up FFr25 to FFr515.

Both Suez and UAP rallied after the former said that it could take a stake in UAP when it is privatised, to solve the dispute between the two over Groupe Victoire. Suez gained FFr4.40 to FFr299.80 while UAP was FFr14 firmer at FFr591.

There was considerable activity in the retail sector after Docks de France, a major retail distribution group, announced the acquisition of Alsacienne de Supermarche. The shares of Docks de France closed down FFr2.50 to FFr481.00, bot off the day's low of FFr451. Interest was also noted in a number of stocks which have been underperforming the market recently: Remy Cointreau, for instance, put on FFr8.00 to FFr166.50.

MILAN was supported by short covering on the last day of the June account but a fall of some 20 per cent in Ferruzzi, down L118.50 to L475, weighed on sentiment, leaving the Comit index down 5.36 at 508.01.

The group of creditor banks was meeting yesterday to discuss the restructuring of the group's debt.

Montedison was given some encouragement by indications that it would be able to dispose of its polymer subsidiaries which, said some analysts, would help cut its debt burden by L2,000bn. The shares fixed up 4 per cent at L810 before slipping on the kerb to L750.

Among the banks, BCI and Credito Italiano gained on short covering with respective gains of L249 and L165 to L4,899 and L2,530.

Stet, which, together with Generali, has helped prop up the market over recent weeks, lost some ground, down L145 at L3,265. Generali was L695 higher at L35,705.

AMSTERDAM was another market to hs lifted by the stronger US currency. The CBS Tendency index rose 0.8 to 109.5.

Philips reached a new 12 month high after the EC agreed a subsidy plan to promote high definition television. The shares put on Fl1.20 to Fl 29.20.

ZURICH returned to the upgrade on the higher dollar, interest rate hopes and good liquidity, the SMI index closing 20.0 higher at 2,294.0. MADRID seemed subdued by the prospect of tomorrow's expiry of the Ibex-35 contract, the general index closing just 0.75 higher at 260.64 with banks mixed, and gentle gains in construction and most utilities.

OSLO climbed 1.4 per cent on the dollar, and lower money market rates, the all-share index rising 6.69 to 481.40 in turnover of NKr600m.

COPENHAGEN put on nearly a percentage point, the KFX index closing 0.82 higher at 86.72 in turnover of DKr562m with banks in focus after a late rally.

Danske Bank, boosted by falling interest rates, rose DKr5 to DKr323.

FT-SE Actuaries Share Indices

June 16	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1178.43	1177.42	1177.55	1178.20	1178.18	1180.56	1181.58	1181.17
FT-SE Eurotrack 200	1235.30	1235.10	1234.44	1234.37	1233.90	1236.46	1237.55	1236.97

	Jun 15	Jun 14	June 11	June 10	June 9
FT-SE Eurotrack 100	1173.17	1181.59	1181.85	1181.45	1181.59
FT-SE Eurotrack 200	1229.86	1234.83	1232.37	1230.25	1230.01

Base value 1000 (26/10/90) Highday: 100 - 1182.27; 200 - 1238.51 Lowday: 100 - 1178.36 200 - 1232.41.

ASIA PACIFIC

Nikkei average falls below 20,000 on political anxiety

Tokyo

GROWING anxiety over tbe country's electoral reform proposals weighed beavily on activity, and the Nikkei index fell below the 20,000 level for the first time since April 26, *writes Emiko Terazono in Tokyo.*

The 225-issue average lost 143.46 at 19,902.42 on small-lot profit-taking and arbitrage-linked selling. Public funds, which were noted placing buying orders around the 19,500 mark, failed to support sentiment. The index rose to s day's high of 20,103.00 in the morning session and fell to a low of 19,820.90 in the afternoon.

Volume remained almost flat at 370m shares. Declines outnumbered advances by 909 to 154, with 96 issues remaining unchanged. The broader Topix index of all first section stocks weakened 19.74 to 1,600.14. In London the ISE/Nikkei 50 index was 0.01 up at 1,209.03.

Confusion over the political situation grew as Mr Kiichi Miyazawa, the prime minister, was poised to give up political reform, an issue on the ruling Liberal Democratic Party's agenda since 1988.

Foreigners were net sellers, while domestic institutions remained on the sidelines. A rally by the dollar against the yen eased some selling pressure. The dollar rose Y1.32 to close at Y106.35.

Overseas institutions were seen selling bank sbares: Industrial Bank of Japan dipped Y10 to Y2,930 and Mitsubishi Bank Y80 to Y2,670.

Nippon Telegrapb and Telephone fell Y27,000 to Y919,000 on profit-taking, while electric utilities, which have been recently popular as beneficiaries of a higber yen, lost ground. Tokyo Electric Power retreated Y60 to Y3,730.

Tbe lower yen, however, encouraged some high-technology exporters. Toshiba gained Y3 at Y693 and Fujitsu firmed Y4 to Y761. A 5.3 per cent year-on-year rise in semiconductor exporters supported Dki Electric, np Y17 at Y491, and Kyocera, the semiconductor ceramic package maker, which added Y40 at Y5,450.

Mitsukoshi, the department store which accounts for more than 90 per cent of Tiffany's sales in Japan, put on Y4 at Y8,231. Reports that Tiffany would take over its own importing and distribution operations in Japan from Mitsukoshi encouraged customers.

In Osaka, the OSE average slipped 336.22 to 22,040.24 in volume of 18m shares.

Roundup

THERE were mixed performances from the region's markets yesterday.

HDNG KDNG was slightly higher as rumours of a breakthrough in Sino-British talks triggered moderate demand, reversing early losses. The Hang Seng index finished 21.37 ahead st 7,304.83, after losing 53 points in early trading. Turnover was strong at HK$5.2bn.

Index futures leapt earlier on talk of progress in Sino-British talks in Beijing on Hong Kong's political future and of an imminent agreement on the deadlocked issue of financing Hong Kong's new airport. The talks in Beijing ended with no outward signs of progress.

Among tbe most active stocks, HSBC appreciated 50 cents to HK$74, Hntchison Whampoa gained 10 cents at HK$22 and Jardine Matheson shed 50 cents to HK$60.50.

TAIWAN saw profit-taking in the last hour erode earlier gains. The weighted index, which had risen more than 40 points at one stage, finisbed 9.40 down on halance at 4,188.90. Turnover remained thin, at T$16.9bn.

Strength in the Big Three banks led the market up at the opening, while speculative activity focused on stocks going ex-rights: Kuei Hung and Taiwan Sakura ended the day's limit up at T$81 and T$45.40 respectively.

KUALA LUMPUR weakened as profit-taking continued to dominate the market. The composite index finished 2.91 lower at 736.51.

Among speculative stocks, Union Paper, which had been rumoured as a takeover target for co-operative Koperasi Usaha Bersatu, fell M$4.05 to M$7.95 on reports that the latter had called off talks. Shares in Union Paper had risen some 400 per cent in the past two weeks, reaching a high of M$23 on Monday.

SINGAPORE also eased further as investors took profits, the Straits Times Industrial index relinquishing 7.97 to 1,811.66. Among losers were banks and shipyards as volume slipped to 215.7m shares from Tuesday's 227.9m.

SEOUL managed to reverse five consecutive days of losses with a 1.42-point gain to 759.26 in turnover of Won570.3bn.

AUSTRALIA was marginally higher, helped by strength in gold shares. The All Ordinaries index closed 0.7 up at 1,724.7 in turnover of A$277.0m, while the golds sector index moved forward 50.2 to 1,717.1.

Among gold issues, Plutonic was up 31 cents at A$5.01 after losing 42 cents on Tuesday.

BANGKOK saw high demand for major property gronps pull the index up in afternoon trading. The SET index added 2.22 at 873.39 in turnover of Bt5.54bn.

The property sector index moved ahead 2.67 per cent, with Bangkok Land climbing Bt3.50 to Bt86.

KARACHI rose sharply on overseas buying, and the KSE index closed above the 1,200 level for the first time in four months, 13.15 higher at 1,200.93.

The market's rise has been prompted by Monday's budget that extended exemptions on capital gains tax.

Spain defies downtrend in Europe

But its gains were based on flawed logic, writes William Cochrane

European bourses, last month, once again showed little inclination to scale the heights of activity that they reached in the first three months of 1993. After a fall of 25 per cent in April from the March level, aggregate turnover in senior markets declined by a further 2.5 per cent in May.

Mr James Cornish, European market strategist at NatWest Securities, which produces the figures, notes that the fall in activity came in spite of a 1.2 per cent rise in the FT-Actuaries European index in May.

Turnover on Seaq International, London's screen-based dealing system for foreign shares, rose by 2 per cent over the month so, says Mr Cornish, London volume as a percentage of domestic market turnover continued to increase.

The total conceals big swings in individual markets. In Spain, turnover jumped by 86.5 per cent on the month and there was a switch here in the Seaq International trend as the latter's gain was held to 49.9 per cent. This is significant because Seaq International, trending upwards since 1990, does up to 40 per cent of Spanish equity business; its share last month fell from 38.7 to 33 per cent.

The reasons for the excitement, after an averagely poor month in April, were the Spanish general election, expectations of a change in government, and forecasts that the peseta would, first, be devalued – as it was, by 8 per cent, in mid-May – and, secondly, that it would be floated after a win for the Partido Popular. As it happened, the Socialists won and volume has since dropped.

Other winners in May included Switzerland, France and the UK.

Switzerland's turnover rose by just under a fifth on the month as the market outperformed Europe in the FT-Actuaries World Indices, and reached new highs, helped by the recovery in the pharmaceutical sector after analysts decided that the nervous reaction to President Bill Clinton's health service review in the US might have been overdone.

France was up 4.7 per cent after a weak April. Volume has been climbing again in June, as the Paris market has recovered confidence and French interest rates have cut loose, on the downswing, from the Bundesbank's straitjacket.

The UK also rose by 4.7 per cent, helped by rights issues, which produce extra trading on the announcement of funding, and afterwards as investors tidy up their holdings.

Italy had the fall it might have had a month earlier. Turnover was down 37 per cent on the month and 35 per cent on the previous three-month average, after hitting record highs in March and April.

Elsewhere, Belgium dropped 29.6 per cent to the lowest level since last June.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Feb 1993	Mar 1993	Apr 1993	May 1993	US $bn
Belgium	57.35	70.30	58.18	40.98	1.26
France	127.96	159.17	117.45	122.95	22.94
Germany	133.68	168.06	113.50	104.40	65.78
Italy	28,045.20	31,337.60	31,098.40	18,665.60	13.44
Netherlands	18.80	21.80	18.80	15.70	8.82
Spain	664.91	856.96	598.87	1,116.74	8.90
Switzerland	17.60	18.90	14.00	16.70	11.76
UK	43.58	51.82	38.79	40.62	63.35

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY JUNE 15 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 14 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (68)	134.36	+1.1	130.88	89.68	114.38	132.15	+0.8	3.79	132.91	129.01	88.30	112.22	131.10	144.18	117.39	147.32
Austria (18)	147.96	-0.9	144.12	98.76	125.96	125.45	-0.4	1.56	149.24	144.85	99.15	126.00	125.99	150.96	131.16	174.04
Belgium (42)	144.60	-0.9	140.85	96.51	123.10	119.69	-0.1	4.77	145.84	141.55	96.88	123.14	120.13	156.76	131.18	143.75
Canada (108)	127.76	+0.4	124.45	85.27	108.75	119.37	+0.2	2.85	127.29	123.54	84.56	107.46	119.12	129.97	111.41	127.33
Denmark (33)	215.60	-0.8	210.01	143.92	183.54	183.63	+0.0	1.23	217.64	211.24	144.59	183.75	183.67	225.64	185.11	236.47
Finland (23)	89.31	-0.9	86.99	59.62	76.03	102.69	-0.1	1.18	90.09	97.44	59.86	76.07	102.75	100.92	65.50	78.23
France (97)	153.92	-1.6	149.93	102.73	131.02	133.03	-0.9	3.39	156.66	152.05	104.07	132.26	134.17	167.36	142.72	162.55
Germany (62)	112.71	-1.3	109.78	75.24	95.95	95.95	-0.5	2.21	114.17	110.81	75.85	96.39	96.39	117.10	101.59	125.37
Hong Kong (55)	296.81	+0.2	289.12	198.12	252.69	294.50	+0.2	3.20	296.18	287.48	196.77	250.08	293.88	301.51	218.82	246.80
Ireland (15)	161.74	-1.0	157.55	107.97	137.70	152.85	-0.4	3.53	163.35	158.54	108.52	137.92	153.39	170.40	129.28	159.90
Italy (73)	66.19	-3.8	64.45	44.16	56.32	73.57	-2.8	2.17	68.81	66.59	45.58	57.92	75.68	72.82	53.78	69.59
Japan (470)	151.60	-2.8	147.67	101.18	129.09	101.19	-2.3	0.82	155.96	151.37	103.61	131.69	103.61	155.96	100.75	101.05
Malaysia (69)	347.59	-0.5	338.59	232.01	295.91	342.64	-0.7	1.97	349.34	339.07	232.08	294.95	344.90	349.34	251.66	241.64
Mexico (18)	1447.28	+0.6	1409.80	966.08	1232.12	4922.78	+0.3	1.38	1438.19	1395.90	955.47	1214.28	4907.56	1725.81	1410.30	1527.05
Netherland (24)	168.90	-0.8	164.53	112.74	143.79	141.65	+0.1	3.88	170.26	165.25	113.11	143.78	141.51	172.75	150.39	165.22
New Zealand (13)	49.07	+0.9	47.80	32.76	41.78	47.95	+0.5	4.62	48.77	47.33	32.40	41.19	47.69	49.82	40.56	46.29
Norway (22)	152.93	-0.1	148.97	102.08	130.20	143.74	+0.7	1.84	153.09	148.58	101.70	129.25	142.80	166.21	137.71	182.42
Singapore (38)	253.06	-1.2	246.54	168.95	215.46	197.55	-1.3	1.84	256.13	248.60	170.19	216.25	189.97	262.72	207.04	228.17
South Africa (60)	193.41	+0.6	188.40	129.10	164.65	195.93	+0.6	2.58	192.16	186.51	127.66	162.24	194.67	201.01	144.72	233.82
Spain (46)	130.08	+0.0	126.71	86.83	110.74	123.33	+0.5	4.81	130.15	126.32	86.47	109.88	122.75	132.82	115.23	155.11
Sweden (36)	176.12	-0.9	171.55	117.57	149.94	190.28	+0.2	1.77	177.55	172.33	117.96	149.91	189.91	184.06	149.70	197.06
Switzerland (52)	126.16	-1.8	122.90	84.22	107.42	114.43	-0.8	1.91	128.47	124.70	85.36	108.48	115.41	129.36	108.61	109.43
United Kingdom (219)	177.50	-0.9	172.81	118.47	151.10	172.91	-0.5	4.01	179.12	173.85	118.99	151.22	173.85	181.99	162.00	195.12
USA (519)	182.31	-0.3	177.59	121.70	155.21	182.31	-0.3	2.81	182.86	177.48	121.49	154.40	182.86	186.27	175.38	166.25
Europe (762)	145.31	-1.2	141.54	97.00	123.71	134.05	-0.6	3.31	147.11	142.79	97.74	124.21	134.83	149.02	133.92	154.80
Nordic (114)	164.15	-0.8	159.91	109.58	139.76	157.06	+0.1	1.59	165.49	160.62	109.94	139.72	156.62	171.77	142.13	180.52
Pacific Basin (713)	155.16	-2.4	151.16	103.58	132.11	107.92	-2.1	1.09	159.07	154.39	105.68	134.31	110.18	159.07	105.89	107.54
Euro-Pacific (1475)	151.01	-2.0	147.10	100.80	128.56	119.09	-1.5	1.96	154.05	149.52	102.34	130.06	120.87	154.05	117.26	128.66
North America (627)	176.91	-0.3	174.28	119.44	152.34	177.95	-0.3	2.82	179.40	174.12	119.20	151.49	178.45	182.38	171.51	163.61
Europe Ex. UK (543)	125.42	-1.4	122.17	83.74	106.80	112.17	-0.6	2.83	127.26	123.52	84.56	107.47	112.85	128.65	112.51	130.70
Pacific Ex. Japan (243)	190.78	+0.3	185.84	127.37	162.44	176.16	+0.1	3.12	190.30	184.70	126.44	160.69	175.92	194.06	152.70	171.42
World Ex. US (1651)	151.42	-1.9	147.50	101.08	128.91	121.12	-1.4	1.99	154.27	149.74	102.50	130.26	122.83	154.27	118.51	128.75
World Ex. UK (1961)	159.13	-1.3	155.01	106.23	135.49	136.73	-1.0	2.13	161.24	156.50	107.13	136.15	138.15	161.34	134.22	135.27
World Ex. So. Af. (2120)	160.65	-1.3	156.49	107.24	136.78	139.56	-1.0	2.30	162.74	157.96	108.13	137.42	140.96	162.74	137.29	139.82
World Ex. Japan (1710)	167.58	-0.5	163.24	111.87	142.69	161.61	-0.3	2.99	168.50	163.55	111.96	142.29	162.18	170.05	157.47	162.48
The World Index (2180)	160.76	-1.3	156.60	107.31	136.87	140.04	-1.0	2.30	162.83	158.04	108.16	137.49	141.43	162.86	137.32	140.43

Latest prices were unavailable for this edition.
Constituent changes 17/6/93: Oerlikon-Buhrle (Switzerland): Registered shares to replace Bearer. Name change: Pic'n'Save to MacFrugals Bargains (US).

هكذا من الأصل

POLAND

Voters are looking for new faces to support in the elections: Page 3

Polish history has taught the value of diplomacy and foreign policy: Page 11

Poland's determination to build a prosperous democracy is vital to the future stability of Europe, writes **Anthony Robinson.** Signs of economic recovery are giving strong encouragement and hope to its watching eastern neighbours

Out of the tunnel

A lone protestor demonstrates in support of Ms Hanna Suchocka (left) whose coalition government was defeated late last month. An open style has made her Poland's most popular politician, but President Lech Walesa (right) is determined to retain and if possible extend his influence

A powerful message is radiating out from Poland to the patchwork of newly-independent states to its east. Carried by private traders from the former Soviet states, or discussed at academic and government meetings, the word is that Poles are already living in the post-communist future – and it works.

It is a message which gains perspective from distance. Seen from Moscow, or Kiev or Minsk, the achievements of Poland's four post-communist years seem little short of miraculous.

Politically, Poland has developed from a one party state with a powerful but illegal opposition, into a fully-fledged parliamentary democracy. Its political parties reflect a wide spectrum of views from the frankly xenophobic right through the Catholic middle to a respectable, former communist, social democratic left. Governments stand or fall according to the parliamentary rules after free and fair elections.

Economically, the country is the first in central Europe to resume economic growth after three painful years of deep structural and institutional changes. These have raised productivity and improved both the quality of Polish products and the ability to compete in world markets. What is already the most privatised and entrepreneurial economy in the reginn is nn the verge of a new wave of mass privatisation. The shortage economy has given way, irreversibly, to market mechanisms and vigorous consumerism.

Budapest or Prague may look more prosperous. But they were much richer before the war and were always considered part of the west. For millions in what was the European part of the Soviet Union it has always heen Slavic Poland – hig and close and ruled from Moscow hy czar and commissar alike for the best part of two centuries – which has offered a more tangible vision of the future. The emergence of Poland from the trauma of transition to capitalism and democracy gives hope to them all.

Seen close up, however, the reality looks less enchanting for many ordinary Poles immersed in their daily lives. Millions nf peasant farmers in a country still 30 per cent rural have seen their incomes drop half over the past five years. Nearly 3m Poles are officially unemployed, over 14 per cent of the labour force. Millions of white and blue collar workers have left their former badly paid but secure jobs to become self-employed or be taken on by the rapidly expanding private sector. But low average wages of just over $200 a month leave many staring at a cornucopia of goods which their low incomes and high inflation keep tantalisingly out of reach.

The pain is not only economic. Whole categories of workers - teachers, university professors, doctors, nurses, miners, steel workers, arms factory and heavy engineering workers, railwaymen - have lost their former socio-economic prestige along with their jobs and their former relatively high incomes.

Even the heroes of the long anti-communist struggle, the Solidarity union organisers in the big factories and shipyards, have become dinosaurs; doomed remnants of a perverse proletarianism in a new economy where small is good and where economic power is shifting fast to private entrepreneurs and ultimately to the new banks, insurance companies and pension funds.

Those who have lost most, or gained least, from the transition processes proved vocal enough and numerically strong enough in a highly fractured parliament of 29 parties to bring down the governmeot on an emotional issue – hy one solitary vote. But they do not constitute a majority.

Most Poles are much better off socially, politically and economically than they were under the despised communist system. Even the former communists, now social democrats, are led by young men who support the shift to a market democracy and want to become junior partners in a future centre-left coalition.

Seen in this broader framework, Poland's reputation for political volatility is exaggerated, even though Poles are once again between governments and heading for early general elections on September 19. This follows the one vote parliamentary defeat on May 28 of the shaky coalition government of free market liberals, main stream Solidarity moderates, Christian CAP nationalists and peasant parties, which was unexpectedly cobbled together last July by Ms Hanna Suchocka.

The no-confidence motion was tabled by the Snlidarity union MPs because of the government's refusal to award higher pay and pensions to teachers and other public servants. To do so would have breached the budget deficit ceiling – equivalent to 5 per cent of gross domestic product – agreed with the International Monetary Fund. The budget deficit limit became the main anchor of economic policy for both domestic and external reasons.

Lax social policy in the past has saddled Poland, a country of just under 40m people, with 8m pensioners. Many are recipients of more or less fraudulent disability or other special pensions, granted essentially as a form of unemployment pay. Without pension reform, and lower real pension payments, the budget will be hard pressed to finance other programmes.

The need to curh social transfer payments is made more acute by Poland's foreign deht repayment ohligations. The resumption of debt servicing on Poland's Paris club debt to official creditors, together with the cost of servicing new loans from the World Bank and other institutions, will cost around $4bn annually by early next century. These repayments will rise further if, as expected, Warsaw negotiates a 50 per cent reduction on its $12.1bn debt to the London Club of commercial bank creditors later this year and has to service this as well.

Until now the legacy of overdue debt left over from the communist past, coupled with unease at the traditions of labour militancy and the perception of political instability, has tended to discourage foreign investors who would otherwise he attracted hy the potential of a 40m strong market and a strategic location.

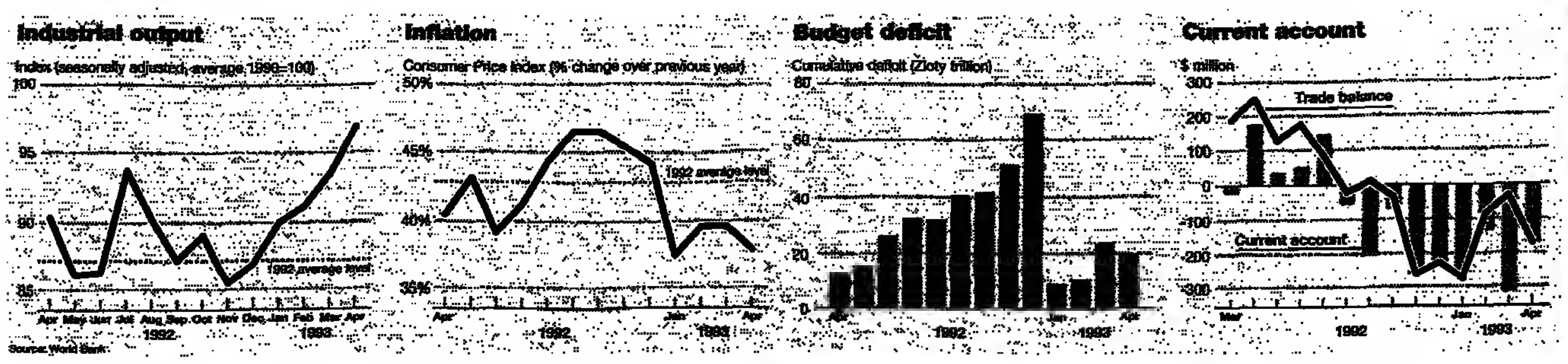
This has not heen wholly negative. The relative paucity of foreign capital and competition has forced Poles to become more entrepreneurial. They have had to do more for themselves than, for example, the Hungarians, whose economic regeneration is largely based on foreign investment, or in the extreme case, former East Germans who have been effectively re-colonised by west German capital and Bonn's largesse.

Before the latest government crisis there were signs that foreign investors were taking a more positive view of Polish prospects. This followed agreement on a $660m standby loan from the IMF in March, parliamentary approval of a modified mass privatisation programme, and the announcement of new loans and new projects from the World Bank and the European Bank for Reconstruction and Develnpment.

A slight hiatus is to be expected between now and the elections on September 19. The outcome in party terms is uncertain, especially since the election will be fought under new rules which limit representation in the new parliament to parties gaining above 5 per cent nf the vote. It is also unclear just what role President Lech Walesa sees for himself in future.

But in hroad brush terms the most likely outcome will be a new and probably more coherent coalition, possibly again led by Ms Suchocka, the current caretaker prime minister. Such a government will almost certainly continue the policies of the last four years which broadly correspond with the desire of most Poles for a functioning market economy and a law-based society.

POLAND 2



A Warsaw supermarket's shelves show Poland's growing prosperity

Harsh economic medicine is starting to work, says **Anthony Robinson**

A year of rising output

POLAND was the first country in post-communist central Europe to embark on radical economic reforms. It now has the satisfaction of being first to see light at the end of the tunnel after 3½ years of wrenching economic change.

Industrial output, which dropped like a stone for two years after the introduction of a crash economic stabilisation package in January 1990, has been rising for over a year from a low point 40 per cent below 1989 levels. Official figures show that April output was 8.1 per cent above the same month last year, and 7.6 per cent higher on average over the first four months.

Official unemployment, the surest indicator of the depth of the industrial surgery which has pared down the state-owned enterprises, remains at a high 14.3 per cent of the labour force. But the rate of increase in unemployment has declined sharply and it now looks as though more jobs are being created in the dynamic private sector than are being shed in formerly bloated and inefficient state enterprises. Registered unemployment actually dropped by more than 6,000 in March.

A recent World Bank report found that many state owned enterprises are also now showing the benefits of better management, lower labour costs and other delayed adjustments to the harsh external environment imposed by the government's tough fiscal and monetary policies. Some, such as the Szczecin shipyards, have shown remarkable turnrounds and are now exporting profitably without subsidies.

Strong growth in the chemical, electrical machinery and construction industries is leading the industrial recovery, accompanied by signs of a revival in investment and consumer demand. Higher output and rising real incomes, however, have put pressure on the external account with an 8 per cent drop in exports to $3.04bn in the first quarter contrasting with a 16.5 per cent rise in imports to $3.41bn.

The deepening recession in EC markets, especially Germany, has made exporting more difficult, while the continuing effects of last year's drought, the EC ban on livestock imports, and poor prospects for the current farm season have cut into farm exports and led to an increase in grain imports to make up the 7m tonne shortfall in last year's 20m grain harvest.

Were it not for the drought, Poland would have registered a 3-4 per cent rise in GDP last year instead of just over 1 per cent. This year the GDP growth target is 3-4 per cent and, longer term, the government is looking for a resumption of steady growth averaging 5 per cent annually for the next decade.

The Central Planning Office (CUP), which advises the government, has drawn up two growth projections for 1994. The slow growth variant looks for 2.7 per cent GDP growth, a modest rise in exports and imports, but 18 per cent unemployment and 32 per cent inflation. The fast track variant opts for 6.5 per cent growth, an 8 per cent rise in exports, double the rate of capital formation, 15 per cent unemployment and 36 per cent inflation.

To move to the fast track, the CUP calls for income tax relief for investors, lower interest rates linked to the producer price index (and not the consumer index), tax breaks for high unemployment regions and export promotion through the creation of a new export credit and insurance agency.

Economists believe the shift from a $385m trade surplus in the last quarter of 1992 to a $370m deficit over the first quarter of 1993 reflects the high import elasticity of Polish industry – which increasingly incorporatas sophisticated imported components in its products – and the desire of Polish consumers for quality imported goods. But the deterioration also reflects an over-valued zloty.

The government imposed a 6 per cent import surcharge on December 17 to restrain imports and followed this up last month by raising the daily devaluation of the zloty from 12 to 15 zloties, equivalent to a 1.85 per cent monthly "crawling peg" devaluation.

The government has been reluctant fully to devalue the zloty in line with domestic inflation, which has declined sharply over the last three years but is still affected by the phasing out of energy subsidies, government deficit spending and the impact of devaluation itself. Consumer prices are currently rising at 32/34 per cent on an annual basis with a smaller rise in producer prices.

Reducing inflation to single digits remains a key policy target. The outgoing government's main policy anchor was its commitment to limit the budget deficit to around 5 per cent of GDP. This was the central plank in its letter of intent to the IMF which agreed a $660m standby loan in March. This was followed two months later by two further loans totalling $750m from the World Bank to help finance farm reforms, bank restructuring and debt repayment.

Holding the line was politically difficult for the minority coalition government which was brought down by trade union and opposition demands for higher pay and higher pensions for public sector employees. Had the government given in to the demands the 21,000bn zloty (£840m) extra spending would have breached the budget deficit limits.

Shortly before dissolving parliament President Lech Walesa vetoed the parliamentary vote for higher pension payments and Ms Hanna Suchocka, re-appointed as acting prime minister, publicly welcomed the fact that with parliament in abeyance the government would have an opportunity to prepare next year's budget in peace.

Keeping to agreed IMF parameters is essential if Poland is to reach a debt reduction agreement with foreign bank creditors. Much hangs on the outcome of forthcoming negotiations with the London Club of commercial bank creditors to whom Poland owes $12.1bn in capital and accrued interest. Negotiations due to take place earlier this month have been postponed to the end of June, ostensibly to give the banks more time to study a report of the state of the economy and Poland's ability to pay.

Poland is faced with a serious bunching of repayments on its $33bn debt to the Paris Club of official creditors and recent borrowings from international institutions in the first years of the next century. So Poland's debt negotiators are seeking a 50 per cent reduction in overall debt, similar to the Paris Club deal two years ago, with a significant buy–back component, and repayment of the outstanding debt over 30 years.

Agreement with the London Club would remove one of the main restrictions on Poland's ability to attract foreign equity investment and permit the normalisation of relations with the commercial banking system. Until now Poland, in spite of its 40m internal market and rapidly growing private sector, has attracted relatively little foreign investment. That is now changing, however, as foreign investors gain experience in the market.

A combination of rapid growth in the locally owned private sector and foreign investment is halping to change the product mix and the quality of Polish exports. The traditional sinews of the old centralised economy – especially coal, steel and heavy engineering – have withered. Coal output this year will be under 120m tonnes, only 60 per cent of its 1980s peak; steel output has more than halved since 1989; heavy engineering output fell over 10 per cent last year.

The painful shift away from energy, labour and raw material intensive industries has reduced power consumption, done more for cleaner air and water than expensive environmental control equipment, and released resources for more profitable employment.

Inside some of Poland's former satanic mills, international companies such as Fiat, Asea Brown Boveri (ABB), Philips, Unilever and Thomson have introduced new management and new machines to produce first class industrial goods for both export and the home market. Fiat now sources Europe-wide sales of the new Cinquecento from its plant in southern Poland and has pledged to invest $2bn before the end of the decade.

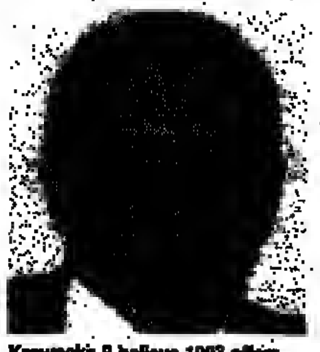
Consumer product and food corporations with worldwide brand names, along with the global detergent and soap companies, have set up plants, attracted by low wage costs, a 40m strong domestic market hungry to adopt western consumption patterns and the prospect of re–expanding trade links with the Baltic states, Russia and Ukraine.

Poland's capacity to absorb higher foreign investment has grown steadily over the last three years as a series of structural, institutional and legal reforms have created the most privatised economy in the region. Most foreign trade, over 80 per cent of retailing, 75 per cent of construction, over 60 per cent of road transport and nearly 30 per cent of industrial sales now come from the private sector which accounts for over 50 per cent of GDP and nearly 60 per cent of employment, including agriculture.

The pace of privatisation is due to accelerate next year with the formation of 20 National Investment funds (NIF), which will manage 600 former state enterprises under tha mass privatisation programme, and governmeot encouragement for wholesale worker and management buy-outs.

Anthony Robinson examines the debt problem

Agreement would help



Krowacki: 'I believe 1993 offers a window of opportunity'

THE increasingly widespread view that the Polisb economy has turned a corner and resumed a path of steady growth is making life more difficult for Mr Krzysztof Krowacki, Warsaw's plenipotentiary for debt negotiations with western commercial banks.

Mr Krowacki, charged with negotiating a debt rednction agreement with the 360 creditor banks represented by the London Club, is seeking a 50 per cent redaction on the $12.1bn capital and accumnlated interest owed to the banks. Earlier this month the Polisb government appointed Kidder Peabody, the US investment and brokerage house, to advise the Polish team.

Poland is obliged to seek a debt rednction deal by the terms of its April 1991 agreement with the Paris Club of official creditors. They have agreed to write off at least 50 per cent of Poland's $33bn official debt in two tranches, provided that it followed IMF-approved policy guidelines and has sought comparable terms from its non-official creditors.

But the banks, reluctant to go beyond the standard 35 per cent rednctions associated with Brady-type debt restructuring agreements, and facing even more extensive deht reduction demands from Bulgaria, have been reluctant to concede the Polisb case.

"I'm fighting against the misconception that because the economy is starting to grow we can pay more," says Mr Krowacki. In the long term, higher investment, foreign capital inflows and income-raising tax reforms should raise Poland's capacity to repay debt. In future, repayment capacity will be determined essentially by balance of payments, not bndgetary factors, he concedes.

But for the forseeable future Poland's capacity to repay debt will remain determined by budget constraints. These are dictated hy the need to finance social security and other spending and yet keep overall government outgoings within tough IMF-determined limits on the budget deficit.

With support from the IMF, wbich recently approved a $660m standby loan, and from the World Bank and other institutions, together with higher foreign equity capital inflows, Poland's economic planners are looking forward to a decade or more of 5 per cent annual growth.

"In the long run we will repay our debts from higher growth and higher exports. But we are already committed to foreign debt repayments of about $4bn a year by the year 2005 under the terms of our Paris Club commitments. It will be very difficult to add repayments under a London Club agreement, even with a 50 per cent reduction agreement," Mr Krowacki argues.

An agreemant now would remove a barrier to foreign investment in Poland, reduce Poland's country risk profile, lower borrowing costs and open the way for an influx of western banks to service international and local clients.

Many of Poland's bank creditors have already written off much of their Polish debt or traded it on the secondary market where Polish paper has risen in recent weeks to about 30-31 per cent of face valne. A debt agreement would therefore show up as an exceptional profit in many bank balance sheets, as Mr Krowacki would like to buy back between 25-30 per cent of Polish debt for cash, and various options for the remainder.

"I believe 1993 offers a window of opportunity for a mutually beneficial settlemeot which I hope to reacb this summer. I'm glad to see that some banks agree with me. Both sides have grasped the situation and that is why we are talking to each other," Mr Krowacki adds.

Christopher Bobinski considers the shifting political alliances in the run-up to September's elections

Voters look for new faces to support

POLAND faces 10 weeks of frenetic electioneering and pre-election alliance-forming among a plethora of small parties in the run-up to general elections on September 19.

However, President Lech Walesa's decision to dissolve parliament last month, after opposition deputies passed a vote of no confidence in the the six-party coalition led by Ms Hanna Suchocka, was generally well received by the electorate. Poles had increasingly come to see the two chambers of parliament – the 460 seat lower house, or *Sejm*, which legislates and appoints governments, and the 100 seat senate – as little more than self-centred talking shops, unwilling or unable to address their day-to-day concerns, which centre on the prospect of further job losses, a continuing low wage regime and uncertainty about the future of the education, health and welfare safety net put in place by the communists, now unravelling at a pace which seems frightening to many.

The popular mood suggests that voters, irritated by politicians whom they feel have lost touch with the grass roots, will be looking for new faces to support this autumn. And for the moment it appears that President Walesa is thinking of providing such candidates.

Already he and his aides have begun to talk of a new movement for reform. "A kind of non-party movement for reform has to established which would act as a counter-weight to other forces," Mr Walesa said after mass one Sunday earlier this month on the steps of St Brigid's Church in Gdansk.

The site – a Solidarity shrine, which the president had shunned lately – was deliberately chosen. It had been the place from whence, in the final years of communist rule, Mr Walesa had led and encouraged his supporters in the old anti-communist Solidarity movement.

President Walesa adds the populist spin needed for a successful campaign

"Nominate people whom neither you or I will be ashamed of, and I'll have my photograph taken with them," he said, seeking to capture the mood of those days with a reference to Solidarity's posters in the 1989 election (Poland's first free ballot.)

"There is a chance to reverse everything that was bad over the past four years. Choose deputies who see the poverty of the pensioners and the activities of the gangsters and I will work with them," he told the crowd – with a populist spin which, as he knows, any successful campaign in Poland needs.

President Walesa's move to put a strong group of loyal supporters into parliament may work; he retains the support of that part of the electorate which originally voted for him in the 1990 presidential election.

But it leaves the established parties, bereft of funds and stunned by the sudden decision to dissolve parliament and call elections, with some difficult choices. Their task is made more difficult by the new election law, passed by the outgoing chamber at the last minute, which bars the way into parliament to those parties which fail to get 5 per cent of the national vote – 8 per cent for coalitions. This is likely to restrict entry to about eight groups.

The governing coalition parties running the caretaker government decided to stay together in the cabinet room. They are talking about running separate campaigns, but they have agreed a "non aggression pact" during the campaign, to smooth governmental caretaking.

This is expected to enhance the already strong electoral appeal of Ms Hanna Suchocka, the prime minister, and the Democratic Union (UD) party of which she is a member.

The Democratic Union, which groups some of Solidarity's historic leaders, is seen from abroad as "sound" on monetary and privatisation issues. On social policies it tends to lean to social democratic options. Until now it has been able to rely on a solid 15 per cent of the electorate, mainly the intelligentsia – a base which may be eroded, as teachers and doctors turn their back on a government committed to holding public servants' pay within strict budgetary limits. It was this issue which led to the present crisis.

The Liberal Democratic Congress (KLD) a free market group and another coalition member, is the most likely to work together with the UD during the campaign, and afterwards to form a government.

But it will be the right wing, catholic, nationalist Christian National Union (ZChN), the third of the main coalition partners, which will find staying in the government and running a separate campaign the most onerous.

Outside the coalition, the parties slot into several segments. The former Communist party, renamed the Social Democrats (SdRP) can be expected to push its electoral support up into double digits, winning the votes of the disillusioned as well as diehard supporters of the *ancien régime*.

The PSL, a farmers' party, survived the postwar years by collaborating with the communists. It stands to do well in the countryside and small towns where a disaffected 40 per cent lives.

Another group aiming to harvest the protest vote is the anti-communist Confederation for an Independent Poland (KPN). Its right-wing populist rhetoric should win it seats in the next parliament.

The smaller right wing parties which, unlike the ZChN, have consistently opposed not only the government but also President Walesa, pose one of the larger questions.

They all charge that the ruling establishment has blocked attempts to purge parliament and the administration of those who had formerly worked with the communist police. Many of their supporters remain convinced that former communists continue to run Poland, in conjunction with their erstwhile opponents from the Solidarity movement.

"Poland - time for a change", the slogan encapsulating the programme of one groups, the Centre Agreement, could have some appeal. But unless all these separate parties form an electoral pact, none will transcend the electoral barrier.

The hope is that the new election law, by limiting entry into parliament to fewer parties, will stabilise government over the next few years and prevent a repetition of Mr Jan Olszewski' experience. Asked, at the start of his premiership, if his government would fall, he replied: "It is already falling, but very, very slowly."

Polish riot police confront the Solidarity union in Warsaw earlier this month Picture: Ray Bedford

PROFILE; Aleksander Kwasniewski of the Social Democratic party

Cell phone at the ready

FOUR years ago Aleksander Kwasniewski was a top communist party aide, deeply involved in the so-called "round table" negotiations between Poland's last communist government, led by Mr Mieczyslaw Rakowski, and the anti-communist Solidarity movement.

Last month, as leader of the Social Democratic party, he was talking with his former opponents about a possible compromise which would have kept the government in place, thanks to his party's benevolent abstention. In the end no compromise was possible. Bnt the fact that the talks took place indicate how far the former communists have regained a degree of political respectability.

This is partly a tribute to the political skills of Mr Kwasniewski, whose party dominates the Left Democratic Alliance (SLD) of former communists. Almost indistinguishable from Poland's emerging business management class, Mr Kwasniewski, with his double breasted suits, natty ties and cellular telephone, has gained a reputation as one of the most able and far-sighted of the younger generation of Polish politicians.

The alliance which he leads developed, by default, into the largest parliamentary group in the recently dissolved parliament. This followed the defection earlier this year of a dozen MPs from the Democratic Union, the largest party of the former Solidarity coalition parties to emerge from general elections in October 1991. The defectors, led hy Mr Alexander Hall, set up their own Polish Coovention party.

Oddly, the re-emergence of former communists as the biggest group in the outgoing parliament attracted less attention than the SLD's earlier decision, in May, to support the Suchocká government's mass privatisation programme (MPP), albeit after the government had incorporated, at the SLD's demand,amendments in favour of state employees and pensioners.

Significantly, the SLD supported the principle of giving an important role in the MPP to foreign-run investment funds – a crucial part of the MPP, which was opposed hy catholic nationalist members of the coalition government itself. The votes of Left Alliance deputies helped Mr Janusz Lewandowski, the privatisation minister, defeat a right wing and solidarity union no-confidence vote which saved both the MPP and the government.

"The privatisation vote carried a high risk for our party. It was not easy to explain to our electorate why we were supporting the government while the Solidarity trade unions and the Christian nationalists were opposing their own government," Mr Kwasniewski admits.

But it was a decision which gave credibility to the social democratic credentials of the party in the business community and brought closer the time when the party could be legitimately considered as a potential member of a future left of centre coalition government.

The SLD is again expected to perform strongly at the elections in September, capitalising on the votes of former communists and those who feel poorer for the loss of the low level social security of the communist years.

The political rehabilitation of former communists has not gone so far as neighbouring Lithuania, where the party led by Mr Algirdas Brazauskas won the recent elections. But developments in Poland are similar to those in Slovakia, where the Democratic Left led by Mr Peter Weiss is preparing itself for a future government coalition role, and in Hungary, where the reform communists led by Mr Gulya Horn are also benefiting from the low popularity of the right wing coalition government. The SLD, Mr Kwasniewski adds, has close links with all these parties, and with reform communists in Italy.

Helping to rally former communist voters, including many unemployed and unskilled hlue collar and office workers, behind the revised mass privatisation programme is part of a long term strategy. There may be many among his voters nostalgic for a simpler, more comfortable past, hut Mr Kwasniewski is not among them. He opposed the idea of holding new elections under the old electoral proportional electoral system.

"Poland needs a stable government, and that would not have emerged from early elections under the old rules," he said shortly before President Walesa egreed to sign the law which will eliminate smaller parties from parliament.

Mr Kwasniewski argues that the rightward shift of the former communists is matched by a leftward shift in the attitudes of right wing parties such as the liberal democrats led by Mr Jan Krzyzstof Bielecki. "The liberals no longer believe in Adam Smith's invisible hand. They too recognise that we need a compromise between the market and people's social needs. So maybe we are both moving towards collaboration in a future government," Mr Kwasniewski said, looking ahead to the inter-party negotiations which will follow the elections.

Memories are probably too long for such an "historic compromise" to take place soon after the September elections. But even the idea of such a centre-left coalition would have been unthinkable four years ago – underlining the fluid nature of Poland's post-communist politics.

Anthony Robinson

Kwasniewski: a reputation for ability

Ray Bashford and Anthony Robinson find that foreign investors are hesitating

Uncertainty inhibits inflow of capital

THE SLOW flow of foreign capital into Poland remains one of the biggest obstacles to long-term growth. While there have been notable successes in the automotive, telecommunications and paper industries, a hesitancy remains among foreign investors which is inhibiting an acceleration in industrial development.

Listed, the reasons for investment in Poland are impressive. It has a population of 40m people, relatively low wages, a motivated and well edncatad workforce, good transport connections and historic ties with potentially large markets to the east. Yet the overhang of political uncertainty, a tradition of labour militancy and doobts about doing business in a country whicb is still in default on large foreign dehts act to negate these advantages.

In addition, as government officials are well aware, Poland is in competition with Hungary and the Czech republic for the atteotion of the foreign investor. Hungary, for example, lacks the domestic market of Poland, but embarked on market-type reforms much earlier while both the Hungarians and the Czechs have greater access to international capital markets. The Czech republic has the added advantage of being relatively unencumbered by foreign debt.

But Hungary, which received roughly 60 per cent of the estimated $7bn equity capital invested in post-communist central Europe by the end of last year, has itself entered a pre-electoral phase of political turbulence and is suffering from an unexpected slowness in resuming economic growth. Czech prospects have also been dimmed by the collapse in post-divorce trads with Slovakia and uncertainty over the outcome of its mass privatisation programme.

Now there are signs of a growtb in foreign investor interest in Poland, despite the uncertainty generated by last month's no-confidence vote and elections in the autumn. Mr Ian Hume, who heads the World Bank office in Poland, is one well placed observer who believes thet Poland is experiencing a "mini-boom" for foreign capital after a slow start.

A businessman echoes this guarded optimism. "You look at the telephone book here and it's like a Who's Who of international companies," he says. "The problem is that most of them have small representative offices and are still looking at what's available and how conditions are."

The completion of detailed comparative studies of 36 sectors of the Polisb economy prior to privatisation has shed new light on several thousand Polisb enterprises which are now open to purchase by competitive tender. Entrepreneurs wbo specialise in Poland's many smaller sized industrial companies, like Mr George Bonner of the Toronto-hased UNP, enthuse about the "hidden jewels" waiting to be burnished by an injection of capital, management know-how, foreign patents and patience.

Meanwhile Poland is acutely aware that it is competing in a world hungry for investment. Mr Janusz Lewandowski, the minister for privatisation, says: "These are recessionary times; we are being forced to compete not only with Hungary and the Czech republics but also with Asia and Latin America for foreign investment."

Some potential investors go away empty-handed. A western banker in Warsaw cites one US company which, after spending considerable time examining prospects in Poland, finally decided to set up in Mexico. While noting the difficulties, Mr Lewandowski believes, however, that there ars encouraging signs that foreign investment, sither funded or committed, will reach $10bn in three years.

Another brake on inward investment is an unwillingness by western banks to lend at normal rates to projects in Poland

With the present total standing at between $4bn-$4.5bn, he forecasts an average annual inflow of $2bn – whicb is at the top end of estimates from Polish and foreign businessmen. A feature of the figures is the wide gap between the amount foreign companies have directly invested in buying assets and the sums they have pledged to invest in the longer term.

The overall picture is distorted by Fiat's decision to buy a majority stake in FSM, the small car producer in southern Poland. The Italian group has made a commitment to invest between $1.8m-$2bn within eight years. The Fiat deal gives an example, too, of how, after taking on the debt of the companies they are buying, foreign companies are putting a small amount of money up front, compared with the total funds committed. After the initial purchase of the plant the Italian group has given an undertaking to invest 10 times this amount in the longer term.

This gap, which is much greater in Poland than in Hungary, is present in most of the large deals. In part it reflects a reluctance hy foreign companies to arrange large-scale financing before testing market conditions, as well as concern about trade relations with the EC. They would also like to bear a stronger and clearer voice of support for foreign investment from the government.

Anotber brake on inward investment is an unwillingness by western banks to lend at normal rates to projects in Poland. The country has yet to reach agreement with its bank creditors on a $12.1bu debt which has gone unserviced since the autumn of 1989. But negotiations with the London Club of bank creditors are proceeding, with the aim of achieving an overall 50 per cent write-off followed by the resumption of normal banking relations.

Foreign investment remains a contentious issues. Even those politicians who have been pushing the reform process have been reticent to issue public statements of strong support for foreign investment. Mr Jerzy Strzelecki, under-secretary of state in the Ministry of privatisation, says that it is common to hear arguments about "selling off the family silver". In many cases he believes this has more to do with political rhetoric than strong opposition.

Mr Strzelecki does not expect to see any fundamental change in the attitude to foreign investment as a result of the forthcoming elections. But be feels thet there could be some alterations in the timetable for decisions in the run-up to the September polls.

The remittance of profits is not a vital question, as most companies are still concentrating on bringing funds in. Those who do have profits to move abroad have done so with a minimum of interference from the government.

As an incentive for investment the government is willing to consider tax concessions for projects worth over ECU 2m in areas of high unemployment, or where modern technology is haing brougbt in and the investment is to concentrate on export production. Italy, through its Fiat investment, is by far the biggest source of funds.

Excluding this deal, Italian enterprises have invested 5.4 per cent of the total (according to government figures). US capital accounts for 18 per cent – with the International Paper Company purcbase of the Gwydzin paper and pulp plant raising its proportion. Germany's contribution is relatively low. The Poles explain that this is caused hy Germany's preoccupation with eastern territories, but historic tensions have also contributed to the reluctance. The western neighbour's total could rise significantly if it wins the competition to buy the remaining state telephone switching gear manufacturer.

A wait-and-see attitude continues. Investors which have made the jump report solid process. As a western banker put it: "People are being slow to come to Poland but I know of no foreign company which regrets coming here."

PROFILE: Thomson Polkolor

Ambition's arrow flies east

MR Marek Sabela, the human resources manager of Thomson Polkolor, draws an arrow eastwards across a map of Poland as he illustrates the ambitions of his company. "We are not only bere to become a less expensive prodncer. We are also here because tbe market is here, especially to the east," be says.

His comment reflects the optimism which has developed since tbe Frencb electronics and electrical manufacturer acquired majority control of Polkolor, the bankrupt state-owned prodncer of tubes for colour televisions.

Much of the Frencb group's efforts, since it paid $35m for a 51 per cent stake in Polkolor in Aogust 1991, have been concentrated on a total overhaul of manufacturing and staff and management practices.

Bnt Thomson's commitment to increase the investment to $100m is evidence of the group's longer-term plans. The remaining sbares were acquired by three state-owned banks which had sizeable loans to Polkolor at the time of its collapse.

Tbe venture is Thomson's only fully integrated television tube manufacturing operation in Europe, combining glass and electrical components prodnction with assembly and distribotion. Its bigger Italian assembly plant, in contrast, draws in components from all over Europe.

Prodnction from the plant on the ontskirts of Warsaw has allowed Thomson to narrow its ontput gap with Philips, tbe leading European manufacturer. Nokia, the Finnish group, trails Thomson, while Samsung of South Korea has increased competition through its venture in Berlin with a former state-owned group.

When Pollsb government approval for the deal went through two years ago, prodnction was running at 600,000 units a year. An industry rule of thumb is that prodnction must reacb 1.2m to achieve a profit break-even.

Mr Stanley Urban, Thomson's chief financial officer, is quoted as saying that the plant was a "wreck" at the time of tbe takeover. By modernising production and management metbods and without altering the prodnct range, output was raised to an annual rate of 1m within months of the takeover.

This process has continued, and a 13-inch tube has been added to the range. An annualised prodnction rate of between 1.5m and 1.8m has been targeted for 1993. Output is forecast to grow to 2.4m by the end of next year – and could reach 3m, depending on the prodnct range mix.

Some 1,000 employees were laid off with a year's salary, while those retained were given a 37 per cent wage rise

A steep rise in quality standards has been an important factor behind a rise in productivity. While Polkolor was in its death throes the reject rate was running at 20 per cent. This has been slashed to 0.8 per cent through employee training schemes and modernised production techniques.

At present between 65 and 70 per cent of annual production goes to western Europe, with Thomson the biggest bnyer through its domestic appliance arm. Domcstic demand accounts for the rest and about 5 per cent goes to eastern Europe.

Siting of the plant in Poland, witb its comparatively low wage base, gives Thomson a highly competitive pricing structure in its western European markets.

Tubes are by far the most costly component, contribnting abont 30 per cent to the total price of a television set. The plant is expected to move into profits by the end of next year, but in the meantime the investment has been justified by the cost advantages it has provided to its parent.

Mr Sabela helieves a 50/50 split between western and eastern Europe is achieveable, bnt he is cautious about timing. "We have no doubt that the demand is there. The problem for the moment is how places like Russia and tbe Ukraine are going to pay," he says. Tbomson Polkolor recently received from the Ukraine an expression of interest in buying 1m tubes a year.

Central to the re-organisation was a cut in the 4,500 workforce. To achieve this, 1,000 employees were laid off witb a year's salary, while those retained were given a 37 per cent wage rise. The company forecasts tbat 3,800 employees will be on the payroll by the end of the year, receiving salaries 50 per cent above the national average. In addition to salary rises, Thomson instituted retraining schemes as a means of reviving good-will and morale.

Mr Sabela, who returned to Poland after working in France for 10 years, says that there is now an open mindedness and desire to contribote often not found in western European companies.

"At the start there were big problems," he says. "We spent a year just talking about wages. Now they are coming to me and talking about the job and this is a hig achievement."

Ray Bashford

A remarkable industrial transformation lies behind the wide choice of washing powders, shampoos and personal care products now offered to Polish consumers, writes Anthony Robinson. Four years ago the market was dominated by the products of nine Polish detergent companies whose small, old-fashioned factories turned out indifferent products with little R and D and almost no marketing skills. They were sitting ducks for the big four international groups which dominate the world market: Procter and Gamble, Unilever, Henkel and Benckiser.

Rather than see the local companies annihilated by competition, the Polish government decided to follow the advice of its consultants, Bain and Co. It solicited competitive bids from the big four to take over the so-called Pollena companies and invest heavily in bringing them up to international standards: the first successful implementation of the government's sectoral privatisation strategy.

Ray Bashford reviews the return of Philips after 43 years

A base in the light fittings market

Philips, tbe Dutch electronics and electrical group, was one of the foreign companies which seized the chance to return to Poland wben the communist regime collapsed.

Ending a 43-year break in close relations with Poland, forced by the nationalisation of the company's operations in 1948, the Dutch group established its base in the former eastern bloc in mid-1991. The re-entry came through the purchase of a majority interest in Polam-Pila, a lighting equipment manufacturer which, like so mucb of Polish industry, was floundering for survival at the time of privatisation.

Philips paid $16m for a 51 per cent stake in the plant at Pila, 320km north-west of Warsaw, and was granted a further 15.6 per cent interest worth $5m in return for raising the plant and its surrounding area to EC environmental standards. The stake was subsequently boosted to 87 per cent by the purchase of a 20 per cent slice from employees.

These shares were sold to employees by the state at half the price paid by Philips. The remaining shares are in the hands of the state treasury. Philips also won a three-year tax holiday on profits – this runs until midway through next year – and the rigbt to have a 15 per cent duty waived on imported machinery and equipment worth up to Fl37m and delivered in Poland by the end of the year.

The transfer of ownership has bot been without difficulty. The terms were criticised as being too generous and a short industrial dispute followed the decision of the Dutcb company to freeze wages against employees' expectations and contrary to the example of several other foreign groups which entered Poland at the same time.

But with this phase behind it the plant has become Philips's base for eastern European expansion in the light fittings market. Its proximity to the former Soviet Union and the associations established there in the previous two decades are expected to offer it an especially high potential across eastern frontier.

Mr Stanislaw Kozlowski, the president of the Polish company says that "the Russian market is our destiny." At present 58 per cent of sales are to export markets. Of this total the US and the UK buy a combined 43 per cent with the former Soviet Union ranking down the list with other European and Arab countries. Incandescent lamp fittings, its main product, scores a significantly higher proportion of export sales than fluorescent fittings and luminaries.

Its function was as a generator of foreign currency through exports

The Dutch company said earlier this year that its overall Polish operations returned a net profit of Z75.4bn ($4.8m)in 1992. The result comes from sales of Z777.5bn, of which Z647.3bn was generated by the Pila plant. The plant in Pila was the biggest state-owned producers of lighting equipment at the time of the takeover but inefficient production and a mountain of debt had driven it to the wall.

Throughout the last two decades its state-designated function was as a generator of foreign currency through exports. Heavy local bank loans were ploughed in to sustain production, with little likelihood of their repayment after servicing charges. The debt has been reduced dramatically since the takeover, but interest payments remain a drain on the company.

In order to reach into the international markets during the 1970s and 1980s, Polam Pila sought to establish ties with world indsutry leaders for the purchase of equipment and advice. But these overtures were repeatedly rejected, partly because of a concern that the technology might be passed on to third parties, especially the then Soviet Union.

Desperate for a much-needed new glass plant, the Poles were forced to turn to Toshiba of Japan, which completed a $25m project in 1984. The Toshiba plant reached contractual standards, but has been virtually scrapped and replaced with Philips equipment since the takeover, in an important part of the plan to elevate production efficiency. Mr Kozlowski says that this decision demonstrates the importance of becoming a part of one of the world's industry leaders and so share in the latest technology.

Philips's historic ties in Poland, coupled with informal links in the two previous decades, made the Dutch group a natural potential boyer as the market in the former eastern bloc became split among the world's leaders. Osram, a subsidiary of Siemens, is negotiating the purchase of Tesla in what was formerly Czechoslovakia; and GE bought Tungsram in Hungary. Mr Kozlowski says that the much bigger GE deal, which has run into significant problems, has been instructive.

Philips, unlike GE, has not attempted a big, immediate about-face in management and production techniques; where possible, local management has been retained – to a point where foreigners have only a token presence in specialist areas.

Privatisation In Poland

– Custom Fitted To Size and Circumstance

Depending on its size and condition a Polish state owned enterprise (SOE) or its part can be privatised in one of two basic ways –

1. **capital privatisation** is used for large enterprises and involves either the public sale of shares or a public invitation to negotiations; the investor acquires shares in the enterprise;

2. **privatisation through** liquidation involves small and medium-sized enterprises – their sale or contribution of the enterprise by the State in return for a minority share-holding;

A green field investor may profit from the Polish privatisation market by purchasing assets offered for sale by SOEs as they are restructured prior to privatisation. Capital privatisations are generally conducted by the Ministry of Privatisation through its advisers.

A List Of Sectors, Department Of Capital Privatisation Coordinators And Sector Advisers – June 1993

Ball Bearings
Coordinator: Krzysztof Herbut
Sector adviser: Kleinwort Benson Ltd.
20 Fenchurch Street, London EC3P 3DB, U.K.,
ph. +44 (71) 623-8000, fax +44 (71) 626-1057

Breweries
Coordinator: Witold Grabowski
Sector adviser: Company Assistance
ul. Podwale 13, 3rd floor, 00-950 Warszawa,
ph. +48 (2) 635-86-80, fax +48 (22) 31-79-20

Cables And Wires
Coordinators: Marzena Gąsiorek, Witold Grabowski
Sector adviser: Bain & Company
ul. Chmielna 35, 00-021 Warszawa,
ph./fax +48 (22) 27-83-15, 27-83-17

Cement And Lime
Coordinator: Tomasz Budziak
Sector advisor: International Finance Corporation,
ul. Emilii Plater 28, 00-688 Warszawa,
ph. +48 (2) 630-34-44; Komertel: 39-30-09-49,
fax +48 (2) 630-34-45

Confectionery
Coordinators: Tamara Glik, Ewa Dobas
Sector adviser: Central Europe Trust Co. Ltd.
ul Parkingowa 1, 00-517 Warszawa,
ph. +48 (22) 21-89-67, fax +48 (22) 21-75-73

Construction
Coordinator: Ewa Zbroch
Sector adviser: Company Assistance

Electric Motors And Switchgear
Coordinator: Marzena Gąsiorek
Sector adviser: Pro-Invest,
ul. Chocimska 14, 00-557 Warszawa,
ph. +48 (22) 48-95-32, fax +48 (22) 48-49-65

Furniture Manufacture
Coordinators: Iwona Wojtkowska
Sector adviser: KPMG Peat Marwick,
ul. Świętokrzyska 36/4, 00-116 Warszawa,
ph. +48 (22) 20-90-23, fax +48 (22) 20-77-83

Glass
Coordinator: Ewa Zbroch
Sector adviser: Price Waterhouse IPG,
ul. Krucza 36, room 637, 00-522 Warszawa,
ph. +48 (22) 21-34-68, fax +48 (22) 21-34-68

Machine Tools
Coordinator: Ewa Zbroch
Sector adviser: Company Assistance Ltd.,

Mechanical And Electrical Automotive Components
Coordinator: Tomasz Budziak
Sector adviser: Barclays de Zoete Wedd,
ul. Stawki 2, 16th floor,
00-193 Warszawa,
ph. +48 (2) 635-05-65, fax +48 (2) 635-92-15

Pulp And Paper
Coordinator: Artur Tarnowski
Sector adviser: Hambros Bank,
ul. Nowogrodzka 18 A m.4, 00-511 Warszawa
ph. +48 (22) 21-79-54
41 Tower Hill, London EC4HA, United Kingdom,
ph. +44 (71) 480-50-00, fax +44 (71) 702-87-2520

Telecommunications
Coordinator: Adam Koronowski
Sector adviser: Bain & Co.

Tyre And Rubber Manufacture
Coordinators: Andrzej Mauberg, Dorota Zaliwska
Sector adviser: Société Générale,
ul. Stawki 2, 00-193 Warszawa
ph. +48 (2) 635-71-62, +48 (2) 635-71-32

Department Of Capital Privatisation
Switchboard: +48 (2) 628-02-81
Advisers' extentions: P. Augustyniak – 460, T. Budziak – 610, E. Dobas – 629, M. Gąsiorek – 453, T. Glik – 657, W. Grabowski – 629, D. Jakubiak – 644, A. Koronowski – 598, R. Lizak – 453, A. Mauberg – 626, R. Orlik – 570, A. Tarnowski 8-611, I. Wojtkowska – 645, D. Zaliwska – 598, E. Zbroch – 603.

The department is further working on the individual privatisation of about 50 companies from a variety of other sectors. For a full transfer list, please contact the Information Centre at the Ministry of Privatisation.
CAPITAL PRIVATISATION EXECUTIVE: Jerzy Strzelecki, Under-Secretary of State: +48 (2) 628-94-21, Andrzej Podgórski, Director: +48 (2) 628-30-90
Information Centre at the Ministry of Privatisation, ul Krucza 36 rm. 281,
ph +48 (2) 625 12 07, fax +48 (2) 625 11 14
Liquidations, on the other hand, are most often implemented at the local level by the SOE's supervising organizations, the so called founding bodies – provincial governors, municipalities and local authorities (At the end of March 2,363 SOEs had as their founding bodies ministries and other central organizations, while 3,756 SOEs were under the supervision of provincial governors).
To coordinate varied privatisation processes throughout Poland the Ministry of Privatisation has established 14 regional offices, the so called delegaturas, each of which covers several provinces.
Out of their catalogues of state enterprises seeking foreign capital they have been *asked to select some of the more interesting investment offers.*
Here they are:

Invitations to expand

POLFA PHARMACEUTICALS
83-200 Starogard Gd., ul. Pelplińska 19
Director: W. Słylo, ph: (+4869) 236-18, fax: (+4869) 223-63.
Employment: 2860, Net profit Jan. - Apr.'93: ECU 7 mln.
Production: Painkillers, anti-inflammatory, heart drugs etc.

LUXPOL KNITWARE
73-110 Stargard Szczeciński, ul. I Brygady 18,
Director: J. Kosik, Employment: 1318 Turnover: ECU 7.895 mln.
Production: Clothing

STILON SYNTHETIC FIBRE MANUFACTURER
66-400 Gorzów Wlkp, ul. Walczaka 25, Director: J. Gramza,
ph: 33-22-00. fax: 33-27-00, Employment: 4000 Turnover:
ECU 68.51 mln. Production: polyamids, magnetic tapes, diskettes

GNIEZNO TANNERY
62-200 Gniezno, ul. Wrzesińska, Director: R. Kujawski,
ph: (+48661) 23-61, fax: 13-03. Employment: 520, Turnover:
ECU 3.78 mln

POLMO MECHANICAL TOOLS
62-200 Gniezno, ul. Roosvelta 120, Director: W. Patyk,
ph: (+48661) 28-11, fax: 59-75. Employment: 270, Turnover:
ECU 3.31 mln. Production: Bevel gears

KUNICE WINDOW GLASS
68-205 Żary, ul. Szklarska 27, Director: J. Rodkiewicz,
ph: (+4868) 728-47, fax: 30-63, Employment: 505
Turnover: ECU 8.22 mln. Production: Automotive toughened side windows, toughened glass for home appliences, clear and bronzed antisol sheet glass

VERA Sp. z o.o.
Łódź, ul. Sławna 15, Director: M. Czekalski,
ph: (+4842) 51-26-76. Employment: 1470 Turnover: ECU 12.74 mln.
Production: Upholstery fabrics, plush

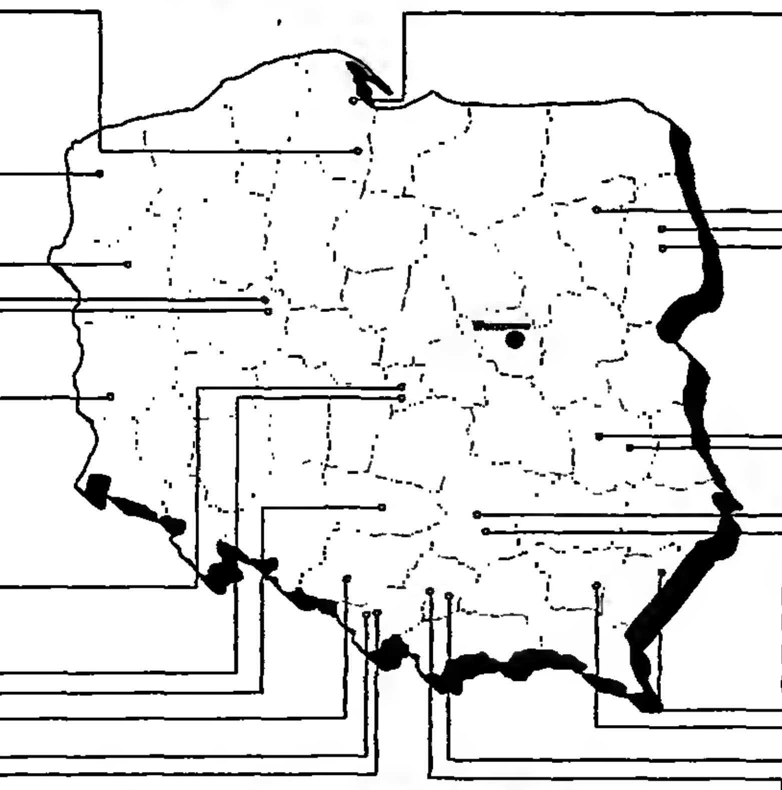
OLIMPIA KNITWARE ENTERPRISE
Łódź, ul. Obywatelska 137, Director: A. Piotrowski,
ph: (+4842) 86-99-53 Employment: 742 Turnover: ECU 9.78 mln.
Production: Clothing

BOLESŁAW METAL MILL AND MINING COMBINATE
32-332 Bukowno, ul. Kolejowa 37, Director: Wojciech Urban,
ph +(4832) 51-88-86, fax: (+4832) 433-150. Employment: 1,857 Turnover: ECU 67.84 mln. Production:
Electrolytic zinc; zinc and lead concentrates, sulfuric acid.

ZGODA TECHNICAL EQUIPMENT ENTERPRISE
Świętochłowice, ul. Wojska Polskiego 66/68
Director: M. Łysek, ph +(4832) 457-201 fax: (+4832) 457-271.
Employment: 1 620, Turnover: ECU 18.655 mln. Production: Diesel engines (license SulzerDiesel Switzerland) mining hoists, hydraulic presses, spares, castings up to 60 Mg.

POLAM ELECTRONIC COMPONENTS
43-300 Bielsko-Biała, ul. Słowackiego 35
Director: A. Ciżowicz, ph: (+4830) 280-83, fax: 201-76. Employment: 334, Turnover: ECU 3.47 mln. Production: Mountings: fluorescent, sodium, halogen valves.

BELOS ELECTRIC TRACTION ENTERPRISE
43-300 Bielsko-Biała, ul. Gen. J. Kustronia 74
Director: L. Pasierbak, ph: (+4830) 413-52, 413-52. Employment: 420,Turnover: ECU 4.759 mln. Production: Traction devices SWW series



ELEKTROMONTAŻ GDAŃSK S.A.
80-958 Gdańsk, ul. Chmielna 20. Director: K. Dobrowolski,
ph: (+4858) 31-48-68, fax: 31-57-13. Employment: 646
Turnover: ECU 7.15 mln. Production: Power distribution and system control equipment for power grid, ships and agriculture

FURNITURE ENTERPRISE
Łomża, ul. Poznańska 90. Director: K. Konopka,
ph: 34-21, fax: 44-26. Employment: 240. Turnover: ECU 2.68 mln.
Production: Furniture upholstered, solid wood, natural and synthetic veneer

E. PLATER, WOOLEN FABRICS ENTERPRISE
16-010 Wasilków, ul. Nadrzeczna 22. Director: J. Dąbrowski,
ph: (+4885) 75-10-74, fax: 75-10-74. Employment: 726, Turnover:
ECU 2.884 mln. Production: Wide range of fabrics for clothing and shoes

BIAZET ELECTRONICS
15-113 Białystok, Sz. Pn. Obwodowa 38. Director: A. Augustyńczyk,
ph: (+4885) 75-30-22, fax: 75-49-48. Employment: 1015, Turnover:
ECU 9.342 mln. Production: TVs, TV high voltage and ignition coils, plastics

LUBELSKIE ZAKŁADY FUTRZARSKIE
24-170 Kurów. Director: Stefan Kubuś,
ph: (+4881) 11-40-57. Employment: 620 Turnover: ECU 7.21 mln.
Production: Wide range of furs and pelts

FRUIT & VEGETABLE PROCESSING ENTERPRISE
Director: W. Mazur, ph: (+4881) 71-11-60. Employment: 800
Turnover: , ECU 13.88 mln.

CHEMAR S.A. CHEMICAL INSTALATIONS
25-953 Kielce, ul. Olszewskiego 6, Director: M. Eberhardt,
ph: (+4841) 66-48-41, fax: (+4841) 56-47-71, Employment: 3112
Turnover: ECU 27.06 mln. Production: Middle and high pressure *chemical installations pipelines and fixtures*

KIELCE PAPER MANUFACTURERS
25-639 Kielce, ul. Mielków 160, Director: W. Antoń,
ph: (+4841) 67-32-00, fax: 564-40. Employment: 1248, Turnover:
ECU 28.57 mln. Production: Corrugated, micro-corrugated board, packaging, etc.

TIMBER YARD AND WOOD PRODUCERS
37-700 Przemyśl, ul. Łukasińskiego 7. Director: Z. Zasadny,
ph: 27-45, fax: 25-21. Employment: 790. Turnover: ECU 8.368 mln.
Production: Timber, pallets, flooring etc.

ERBEPE BUILDING ENTERPRISE
35-080 Rzeszów, ul. Słowackiego 24
Director: J. Pokrywka, ph: 374-81, fax: 330-84. Employment: 656
Turnover: ECU 5.63 mln. Production: Housing and public construction, building timber

NOWA HUTA CEMENT WORKS
30-969 Cracow, ul. Cementowa 2, Director: A. Melczyk,
ph: (+4812) 44-72-20, fax: 44-23-66. Employment: 438, Turnover:
ECU 11.86 mln. Production: Portland and furnace cement, gravel ash

CRACOW PLUMBING FIXTURES
30-418 Cracow, ul. Zakopiańska 72. Director: T. Kosek,
ph. (+4812) 66-23-96, fax 66-46-81. Employment: 1496, Turnover:
ECU 26.57 mln. Production: bathroom fitting, heaters

Delegaturas of Ministry of Privatisation

15-950 Białystok, ul. Suraska 1;
ph: +48 (885) 436-572, fax: 435-427

43-300 Bielsko Biała, ul. Komorowicka 72
ph/fax: +48 (830) 200-52

31-526 Cracow, ul. Kielecka 2;
ph: +48 (12) 120-726, fax: 115-811

80-852 Gdańsk, ul. Dyrekcyjna 6;
ph: +48 (58) 313-306, fax: 312-972

40-024 Katowice, ul. Powstańców 41a;
ph:+48 (832) 155-26-01, fax:155-25-65

25-955 Kielce, ul.IX Wieków Kielc 3;
ph: +48 (41) 212-95, fax: 440-06

20-004 Lublin, ul. Lubomelska 1/3;
ph: +48 (81) 724-521, fax: 234-24

96-329 Łódź, ul. Piłsudskiego 8;
ph/fax: +48 (42) 363-409

60-967 Poznań, Al. Niepodległości 18;
ph: +48 (61) 541-771 fax: 541-638

35-959 Rzeszów, ul. Grunwaldzka 15;
ph: +48 (817) 627-384, fax: 627-199

70-206 Szczecin, ul. Dworcowa 19;
ph: +48 (91) 338-540, fax: 344-284

87-100 Toruń, ul. Piekary 49;
ph/fax: +48 (856) 104-04

00-522 Warsaw, ul. Krucza 36,
ph: +48 (2) 628-16-89, fax: 628-22-98

50-951 Wrocław, Pl. Powst. Warszawy 1;
ph: +48 (71) 406-905 fax: 444-524

The Ministry of Privatisation has developed an intermediary approach of privatization through restructuring – by which *management firms are contracted to turn around* and privatise SOEs *in poor financial condition* with an option to purchase them at the end of the contract. Successful bidders contribute a financial deposit representing a percentage of the initial tendered value of the company. Their remuneration consists of a contractual fee and of a provision based on the difference between the tendered value and the sale price of the privatised enterprise. *For further information about* the programme, please get in touch with the Department of Privatisation through Restructuring at the Ministry of Privatisation, attn: Bożena Dyjak or Beata Końska, ph: +48 (2) 628-60-67, fax: +48 (2) 625-11-14.

Database of Available Assets *The privatisation and restructuring processes* have led many of the state owned and incorporated state treasury enterprises to *rationalize* their production facilities.

Approximately 2,800 offers of sale, rental or lease (from machines and equipment to buildings and land) have been listed in a continuously updated Data Bank of Available Assets. Access to this data bank is offered free of charge to any interested investor at the PAIZ *Information Counter in the Ministry of Privatisation. Information is* provided on the basis of one of two criteria: a) geographic location, b) the type of facility for sale: warehouses, production halls, hotels, and resort facilities, land, machinery, plants of specified industrial sectors, etc.

Please phone +48 (2) 625-12-07, fax: +48 (2) 625-11-14 or write to Renata Szydlowska, Data Bank of Available Assets, Ministry of Privatisation, ul. Krucza 36, 00-522 Warszawa.

Established to help you find what YOU want.

State Foreign Investment Agency – The purpose of the agency is to encourage foreign investment in Poland, provide information on legal matters, procedures and business opportunities. Initial enquiries on any matters related to foreign investment should be directed to the PAIZ Information Centre at the Ministry of Privatisation, ul. Krucza 36, 00-522 Warszawa, ph: +48 (2) 625-12-07, fax: +48 (2) 625-11-14. For further assistance on individual projects potential investors are reffered to the PAIZ Investment Servicing Division, Al. Róż 2, 00-559 Warszawa, fax: +48 (22) 21-84-27 or phone +48 (22) 29-57-17.

The Agency publishes **Privatisation Update**, a monthly digest on investment opportunities and privatisation in Poland with specific opportunities in different sectors of industry, in different regions and following different *privatisation methods. To subscribe write or call as above. A full list of other publications is available on request.*

The Cost Of This Advertisement Was Met By The European Community Phare Programma Of Assistance To Poland

Studio O

Anthony Robinson reports on the progress of privatisation

Taking politics out of economics

"GIVEN another year of political continuity Poland will have advanced to the point where the economy becomes independent of political uncertainties," Mr Janusz Lewandowski, the outgoing privatisation minister, said only days before the government fell on a no-confidence vote in parliament.

That judgment still holds, partly because of a clear majority in the country for a continuation of market reforms, and partly because privatisation of the economy is about to achieve critical mass.

Mr Lewandowski is in a good position to judge, because he started the privatisation process as minister in the first post-communist government in 1989, returning to the helm four governments later in the coalition led by Ms Hanna Suchocka.

Progress since those early days has been greater than is often realised, despite the sometimes lengthy periods between governments when privatisation seemed as becalmed as the rest of the decision-making process. More than 2,000 of the 8,500 state enterprises have been privatised and by the end of this year more than 50 per cent of GDP and 60 per cent of total employment will stem from the economy's privatised sector.

Privatisation has attracted a large part of the $4bn foreign equity investment commitments to date and has been instrumental in achieving significant structural changes in the Polish economy towards an export-competitive, market-based system. Privatisation is also contributing substantial sums to the Polish treasury, expected to reach $580m in 1993 alone.

Public perceptions of the pace of privatisation have been clouded so far by political delays to the introduction of the mass privatisation programme (mpp) and the time consuming nature of "sectoral privatisation". The latter has involved detailed studies of 36 industrial sectors, comparisons with similar industries in established market economies, and the setting up of competitive bidding procedures for potential foreign investors.

In April, parliament with tacit left wing support, approved the long-delayed mpp in an amended form. This gave pensioners and public sector employees extra shares in 200 of the 600 state or municipally owned enterprises whose ownership and management is to be transferred to 20 National Investment Funds.

In practice, most Czech and Slovak voucher holders delegated this choice to the private funds

Shares in the NIFs, tradeable over the counter to start with and subsequently to be quoted on the Warsaw Stock Exchange, will be distributed to the population for a small registration fee equivalent to $20, or 10 per cent of an average month's salary.

The original timetable for implementing the mpp called for the appointment of fund managers by a state selection committee to be set up by the prime minister this summer. In spite of the dissolution of parliament the timetable will be adhered to, although the five MPs who were to be part of the 19 person committee will not now be appointed until after the mid-September election.

By October-November the committee, which includes two trade union representatives and 12 experts chosen by the government in addition to the five late-joining MPs, is scheduled to choose from the growing list of foreign and domestic fund managers who have expressed an interest in managing the new funds.

A call for tenders will be sent to the management companies in July. Fund managers will receive an annual fee, topped up by performance-related bonuses and share options at the end of the envisaged 10-year initial life of the funds. New Year's day, 1994, has been set as the launch date for the new funds, with the issue of share certificates to start in the first quarter. Poles will then have six months to register and claim their certificates.

The strategic, 10-year, management functions to be assumed by the 20 new NIFs is what most clearly distinguishes the Polish mpp from its closest equivalent, the Czech mpp. In the Czech case the investment funds appeared spontaneously following the launch of the mpp and were not part of the government's programme. The then Czechoslovak government simply arranged for the privatisation of 1,300 state enterprises and issued books of vouchers which could be used to bid for shares in the chosen enterprises.

In practice most Czech and Slovak voucher holders, unaware of the identity or potential value of participating enterprises, delegated this choice to the private funds which were mainly created by state-owned banks lacking proven fund management skills or experience.

The Polish mpp, however, hangs on the quality and skills of the still-to-be-appointed fund managers whose task will be to convert the enterprises in their portfolios into profitable investments.

Mr Lewandowski has long argued that this is most likely to happen if experienced foreign fund managers, backed by management consultants and able to hire managerial talent, are invited to run or assist the funds. Significantly this view is shared by the major left wing groups in parliament, including the former communists. Opposition comes mainly from the xenophobic confederation for an Independent Poland (KPN) and the various catholic nationalist and smaller peasant parties and could well become an issue in the election campaign.

Representatives of the workers also sit on the supervisory boards of privatised companies

Another irritant in the smooth implementation of the mpp is President Walesa, who, having promised Poles that privatisation would make them $10,000 richer during his own presidential election campaign in 1990, keeps re-surfacing with his own mpp proposals. The plans involve bank loans and charges on the budget way beyond the capacity of both sources to satisfy. "Whatever I can do will be below Polish expectations," Mr Lewandowski shrugs in mock despair.

But the average Polish worker employed by a state enterprise should gain through the mpp or other forms of privatisation.

Enterprises privatised by a smorgasbord of different variants have to set aside up to 20 per cent of their shares, or a smaller proportion linked to the average wage, to workers in the enterprise. Up to 10 per cent of these shares are given to the workers and a further 10 per cent can be bought at a 50 per cent discount.

Under the terms of the Enterprise Pact recently signed between the government, trade unions and enterprises, representatives of the workers also sit on the supervisory boards of privatised companies. The sting in the tail, however, is that privatisation abolishes workers' councils. This means an end to the cosy alliance between workers and state enterprise managers – the last vestige of old style proletarianism.

The enterprise pact, which requires management and workers to submit their own privatisation proposals within six months, is crucial for the smooth privatisation of the heavy industrial sector and big labour or capital intensive enterprises. The sectoral privatisation, under which consultants working for the government have prepared 36 sectors of the economy for sale, is also expected to take off in coming months.

The first sectors to be privatised in this way include the detergents, soap and toiletries industry, industrial gases, and cables, in which management consultants Bain and Co, bankers Samuel Montagu and auditors Coopers & Lybrand were involved, and the Pulp and Paper industry, where the government was advised by Hambros bank.

Sectoral privatisation has also attracted the attention of the multinationals. Procter and Gamble, Unilever, Henkel and Benckiser, for example, all bought detergent plants, while International Paper corporation kicked off paper sector privatisation by paying $120m for the Kwidzyn paper plant.

All pledged to spend heavily on modernisation and expansion.

All these deals, and others including the chemical industry, telecommunications and other strategic sectors, involve substantial investment pledges and employment guarantees, which tend to be decisive factors in choosing between competitive tenders from foreign companies.

But, with more than 6,000 state enterprises still to be privatised, large scope remains for traditional Polish state enterprises to be taken over by management or management-worker buy-outs.

Turning these enterprises round remains the real challenge facing both sectoral privatisation and the mass privatisation programme.

Faces of Poland: a riot policeman on duty on June 4 in the square in front of the former royal palace as demonstrators gathered to protest amid the political uncertainty which followed the fall of Poland's fifth government since the end of communist rule in 1989

PROFILE: Szczecin shipyard

Profitable symbol of regeneration

LESS than two years ago the state-owned Szczecin shipyard was on the receiving end of much appreciated technical and managerial advice from Swan Hunter, the UK shipyard, about how to raise productivity and improve efficiency.

Last month the Polish shipmakers were dismayed to find that the UK shipyard had been taken into receivership, but delighted that their own had become in some ways a symbol of the regeneration of former loss-making state enterprises.

The turn round started in April 1991, when the management, headed by Mr Ryszard Kwidzinski, came to the conclusion that there was no real prospect of government or other external help and that management and workers had to rescue the shipyard with their own efforts.

To gain credibility with the banks – owed 2,500bn zloties (£100m) – the management negotiated a series of reforms

"We started looking for practical, non-political solutions, drew up a business plan and hawked it from bank to bank," he recalls.

In July, 1991, Mr Jan Krzysztof Bielecki, the then prime minister, visited the shipyard and agreed to change its formal status into a joint stock company, albeit with 100 per cent of the shares owned by the Polish treasury. To gain credibility with the banks, to whom the shipyard owed 2,500bn zloties (£100m), management negotiated with the 5,200 workers a series of reforms.

The changes linked wages to productivity; changed the production system to reduce stocks; concentrated resources on fewer ships at a time; introduced a double shift; revamped management and introduced computers; and brought the privatised design bureau back into the company.

More than 700 workers either changed jobs or left the yard, while the financial and auditing departments were expanded, along with the introduction of modern cash management.

The results have been extraordinary. Shipbuilding time was reduced by 50 per cent to 180 days from start of construction to sale. Instead of as many as 24 ships at varying stages of completion around the yard, it now has two ships under construction, two being fitted out, two in the planning stage and two in the pre-fabrication shops.

This year the company will deliver 15 container ships of 12,500dwt each, worth $280m, all to foreign owners – mainly German, but also to South African, French and other buyers. It expects to make a 5 per cent profit, without a single zloty in government subsidies. "We now have the best delivery times in Europe and full order books over two years ahead," Mr Kwidzinski claims.

The return to profitability would not have been possible without an agreement with the banks and 1,800 other creditors, including suppliers.

Without a debt rescheduling the shipyard could have been declared bankrupt and all would have lost.

Instead, small creditors owed up to 200m zloties were paid in full. Those above that level, including the the biggest creditors, PKO bank and Bank Gdansk which together were owed more than 1,000bn zloties, agreed to be repaid in 20 quarterly tranches, with a year's grace and without any interest – despite inflation of about 32 per cent. "The choice before the banks was to get something, or nothing," Mr Kwidzinski underlines.

Management is preparing for privatisation within two years with strong management and worker buy-out elements

Looking ahead, management is preparing for privatisation within two years with strong management and worker buy-out elements.

A last-ditch attempt by the small Solidarity 80 union to derail the privatisation through the intervention of President Walesa appears to have failed, after the president was presented with the full facts of the case.

Anthony Robinson

Christopher Bobinski visits the Warsaw stock exchange

Fledgling market's spectacular rise

"THE WORD went out that there was money to be made, so the cash flowed in." That is how Mr Janusz Piekarski, an early investor and regular attender at the Warsaw Stock Exchange, explains the reason for the fledgling market's spectacular 175 per cent rise over eight weeks after Easter, before the laws of economic gravity reasserted themselves.

But even as prices began to come down at the beginning of June hopeful investors continued to crowd into the banks to buy shares in two new issues which, when quoted on the WSE, should bring the number of stocks traded at its three sessions a week up to 21 by the autumn.

The surge in prices marked the exchange's first big boom since it was set up almost two years ago in the communist party's old headquarters. The flood of money brought price/earnings ratios up to an average of 10 from about three, at which stocks had stagnated for most of last year. Average turnover per session rose from 30bn zloty to 350bn zloty as some 19,000 Poles opened accounts with brokers, enabling them to buy and sell shares. Newcomers to the market brought the number of active investors up to around 100,000.

The impetus for the boom came from two sources. One was the dip in bank interest rates in the early spring, prompting savers to find a new home for their money. The other factor was an influx of foreign investors whose steady buying orders at the height of the boom were, according to official estimates, responsible for a quarter of the turnover, giving the market its upward momentum.

Foreign investment included five funds led by Invesco's CEAM fund, an early entrant on the exchange. That brought the smaller, and some large, investors in off the streets as they became aware there was a 30 per cent untaxed profit to be made buying available stocks.

Despite the madness the market did tend to favour the "better" shares such as Wedel, the chocolate manufacturer controlled by PepsiCo, Mostostal, a building company and Electrim, the trader in power and telecommunications equipment. Electrim is particularly well-placed to benefit from modernisation of the country's infrastructure.

Recent developments have delighted Mr Wieslaw Rozlucki, the WSE chairman. But even with recent price rises, WSE capitalisation, which reached some $800m at its peak, still accounts for little more than 2 per cent of the population's total savings.

The exchange, modelled on the French order-driven system, where prices are allowed to move by 10 per cent up or down per session, has stood up well in the new business rush.

Next year, Poland's mass privatisation programme should see the transfer of up to 600 enterprises into the hands of foreign-managed investment funds.

Shares in these funds are to be available at a nominal fee to all adult Poles. These will then become tradeable.

The plan is to establish an over the counter system before the funds are transferred to the WSE. Thousands of employees are to be granted 15 per cent of the equity in the companies managed by each individual fund.

An important dampening factor on the WSE's performance is the series of strict rules on the disclosure of results by publicly-quoted companies which many Polish companies – and some foreign companies operating in the country – remain wary about.

Anthony Robinson reports on the banks

Sell-offs gather pace

THE long-awaited overhaul of the Polish banking system moved into higher gear in April with the successful privatisation of Wielkopolski Bank Kredytowy (WBK). The sale to foreign and domestic investors was welcomed by Mr Jerzy Osiatynski, the Polish finance minister, as the first big commercial bank privatisatioo in the whole of central and eastern Europe.

Next in line for privatisation is Bank Slaski, the Silesian bank, which like WBK is one of nine former regional branches of the Narodowy Bank Polski (BNP), the central bank, which were hived off in 1988 and have since been groomed for their eventual debut as the core of a revitalised commercial banking system.

The past three years have seen a rapid growth in private banks, but most remain small and are finding survival difficult. A few have already failed, the most spectacular being the ART-B bank which left a hole of about $500m behind it and led to an urgent strengthening of central bank supervisory procedures under a oew president, Ms Hanna Gronkiewicz-Waltz.

The central bank showed its concern abont the dangers posed by the proliferation of small, under-capitalised private banks when it mounted a prompt lifebost operation to protect depositors in the First National Bank of Lublin following a two day run on the bank last year.

The recent takeover of the small Lodz Development Bank by BIG-Bank, one of the first of the new private banks, was a sign that a consolidation process, encouraged by the monetary authorities, is under way.

Last year the nine commercial banks hived off from the national bank, and the six specialised banks such as Bank Handlowy, the foreign trade bank, were again the most profitable banks and those most trusted by depositors. But margins of all banks are coming under pressure. Extensive training and computerisation programmes are raising costs while lower interest rates and a greater concentration on low risk bnt low-yielding government paper are reducing spreads and therefore income.

The biggest problem facing most banks however remains the high level of non-performing loans and bad debts from loss-making enterprises. A recent study by Professor Stanislaw Gomulka of the London School of Economics showed that the bad debt problem is heavily concentrated in 11 per cent of Polish enterprises which account for 61 per cent of total bank debt. Thus far, although most loss-making enterprises in the state sector have sold assets and reduced their labour force, few have been closed, and their debts remain on the books.

The World Bank recently approved a $450m loan to help restructure the banks and up to $600m is also available from the original $1bn stabilisation fund provided by western governments in 1990 to support the zloty but never used. Some of these funds will be used to finance the restructuring of Poland's foreign debt, some to provide interest bearing bonds to replace enterprise debt writedowns in bank balance sheets.

Providing the banks with fresh capital is also one of the main aims of the bank privatisation programme. The WBK privatisation, with Schroders, the City merchant bank, as advisers in close co-operation with Coopers Lybrand, the accountancy firm, raised 200bn zlotys for the treasury through the public offer of 20 per cent of the shares to small private investors. The small investor tranche was heavily over-subscribed.

A further 7.2 per cent was allocated to large investors, botb domestic and foreign, while 14.3 per cent of shares was reserved for employees with the treasury retaining 30 per cent.

From the WBK point of view the most important element in the privatisation was the 28.5 per cent stake taken by the European Bank for Reconstruction and Development (EBRD) through the purchase of new shares. This meant a 210bn zloty ($12.7m) injection of new capital.

Critics of the deal, inside the bank and outside, complain that the offer price of shares was too low, thet more shares should have been made available to Poles and thet more effort should have been made to find a foreign commercial bank rather than the EBRD as a partner.

But the price was agreed before the subsequent general rise in share prices on the Warsaw stock exchange while the treasury took the view that, with several other banks in the privatisation pipeline, it was essential to make the first privatisatioo a success for small investors.

The willingness of the EBRD to step in where foreign commercial banks have proved reluctant to tread reflects the wait-and-see attitude of foreign banks and the relatively limited inflow of equity investment generally into Poland.

The expectation is that this reticence will dissipate once Poland secures an agreement on the restructuring of its $12.1bn debt with the London Club of commercial bank creditors to match the two-stage 50 per cent reduction in its $33bn Paris Club debt reached in 1991.

Citibank of the US and Creditanstalt of Austria have been the first foreign banks to open branches in Poland and some German banks are believed to have bought relatively small packets of shares in Poznan-based WBK which is active in western Poland and has the highest number of Polish-German joint ventures. Several banks have representative offices and US, German, Dutch and French banks are preparing to set up new branches.

Meanwhile, the strongest Polish banks are increasing their reserves and raising their capital adequacy ratios. Bank Handlowy, which has lost its former monopoly of foreign trade financing but expects to retain a 60 per cent share of this overall expanding business, added $150m to its capital base last year after raising net profit to around 5,000bn zlotys ($312m) from 1,400bn zlotys in 1991, Mr Cesary Stypulkowski, the bank's young US-trained chairman says.

Bank Handlowy's higher profitability bucked the general trend to lower profits from narrower spreads, higher costs and greater competition which characterised the bulk of the banking sector. Faced with heavy losses on loans to the fledgling private sector most banks have reduced lending to the risky, but capital starved, private sector. They have opted increasingly to invest deposits in less risky but lower margin government bonds.

The long term aim of bank restructuring is to improve the banks' capacity to evaluate risks, raise capital adequacy ratios and increase the banking system's ability to perform its main task. That is to help finance the development of a dynamic private sector whose capacity for future growth will be largely determined by access to affordable loans from competent banks.

Christopher Bobinski looks at the labour movement

Solidarity has its moments

THE Solidarity trade union, founded in 1980 to oppose the communist system and its inefficient command economy, finds itself searching for a new role as the growth of the private sector decentralises power to independent company managements, while mounting unemployment erodes its power base in the big factories.

But the now-reduced Solidarity union still has its moments. In 1992 the union's parliamentary group was instrumental in putting together the coalition government headed by Ms Hanna Suchocka.

Eleven months later it was Solidarity which decided the coalition's fate when it followed up a campaign for public servants' wage rises with a no-confidence motion which scraped through parliament by one vote. Having toppled the government it then threatened to press for a general strike.

But before Solidarity could savour its political triumph the constitution shifted the political initiative from the union and into the hands of President Lech Walesa. He vetoed a bill by which parliament had voted an extra 21,000bn zloties for pensioners, dissolved parliament and called early elections for a new government. Ironically, the government brought down by the union's no-confidence vote had earlier made the greatest effort to draw Solidarity and the other unions into the new market system. For it was Ms Suchocka and her ministers who negotiated the enterprise pact which sought to involve the trade unions in the privatisation process.

As part of the pact the government also pledged to hold regular consultations on macro-economic policy between the unions, employers and the government. These promises will have to await the outcome of the elections.

No less ironically, it was the OPZZ unions, fostered under the communist regime, which appeared in the past weeks to recognise that the Suchocka government was offering the unions a good deal. Under the leadership of Ms Ewa Spychalska, a political scientist, the OPZZ union federation movement, whose membership has shrunk to below 4m, had shown a lack of enthusiasm for Solidarity's political campaign against the government.

Ms Spychalska herself admits that this year's budget constraints are such that she could not see what Mr Marian Krzaklewski, the head of Solidarity, had been hoping to achieve by pushing his wage claims so strongly.

But day by day Solidarity and the OPZZ face similar problems. But the underlying problem is that neither union has much of a presence in the private sector, which now accounts for over half of Poland's employment – except where a plant has been privatised and the unions privatised with it.

In the state manufacturing sector, conflicts are rarely about pay but more often about protecting jobs. Strikes are called usually where orders are scarce anyway, and it is not unheard-of for workers at plants formally declared to be "on strike" to continue to work for fear of losing orders.

The conflict line, especially in the state sector, does not really run between workers and management. On the contrary, public sector workers and management often combine to put pressure on government for support to keep their usually loss-making enterprises afloat.

All this is confusing for blue collar workers without whose support the Solidarity movement would never have removed the communists from power in 1989 and who now see few rewards for their efforts. The feeling of impotence and disillusion is mounting.

The Coca-Cola flag flies high in Poland, writes **Ray Bashford**

Carbonates and culture

SYMBOLS marking the arrival of capitalism abound in Poland, but none is more striking than the decision to locate the offices of Coca-Cola Company in the Palace of Culture building.

Referred to by cynical Poles as the Power Tower or Stalin's Church, the 40 story building dominates the drab Warsaw skyline.

In the decades since Stalin ordered its construction the building came to represent, through its granite and marble exterior, the power of the communist central authority.

Now, while talk continues of tearing down this monument to Poland's communist past, it has become a piece of prime city office space. Mr Ryszard Wojtkowski, a senior manager for Coca-Cola in Poland, says that the decision to locate the company in the building was taken for purely commercial reasons.

Since coming to Poland in March 1991, the company has outgrown its two floors of space in the building, highlighting the pace of growth the company has achieved. Now it is moving out to one of the modern office blocks springing up all over the city centre.

With investment commitments to Poland of over $200m, the country ranks second to eastern Germany as the US groups's focus for investment in eastern Europe.

Coca-Cola has made investments in 11 former Soviet bloc countries since taking the decision, in the late 1980s, to exploit the area's potential.

Before making a direct investment, Coca-Cola maintained a token presence through arrangements with state-controlled brewers to produce Coke from imported concentrate.

Legacies of this arrangement remain. But a mixture of joint ventures, partnerships with bottling companies and wholly-owned operations has enabled the company to gain a large slice of the carbonated drinks market.

Per capita consumption of carbonated drinks in Poland is well below that in in western Europe. It has traditionally been supplied by relatively small local producers starved of capital and marketing skills. Coca-Cola and its rival, PepsiCo, are both caught up in the throes of large-scale publicity drives – and these are having visible results in all parts of the country.

The power of these campaigos is expected to drive many small regional groups out of business as the two multinationals drive home their production and marketing advantages.

Estimates vary widely, but Coca-Cola says that Coke and PepsiCo have about 50 per cent of the market and forecasts that this will rise to 70 per cent by the end of the year.

Competition for market share between the two US companies has hotted up during the past 12 months, with Coca-Cola apparently winning the fight.

Unlike its competitor, PepsiCo has sought to tie up deals with larger regional brewers for Pepsi production and is complementing its Polish operations with the introduction of a fast foods subsidiary, Pizza Hut.

Meanwhile, Coca-Cola's sales volume rose 274 per ceot during 1992, from a small start-up base.

Current output of 40m cases a year of the equivalent of 0.4 litre bottles is forecast to rise to 100m within two years – equal to sales in eastern Germany last year. (This forecast is based on establishing nine plants in the main population centres by the end of 1993.)

The company's joint venture partners in Poland are Brau, the Austrian brewer, and Ringnes, a subsidiary of Orkla of Norway, which is the Coca-Cola bottler in that country.

It's the real thing: Coca-Cola seems to be winning the battle against its rival, PepsiCo – with visible results in Warsaw's Old Town Square

Coca-Cola took its initial step into Poland through a joint venture in Warsaw in which the Norwegian group took a 51 per cent share.

To widen its geographic spread, Ringnes then established a production site in Bydgoszcz, 280kms north of Warsaw. It took a 90 per cent holding in this, for a $20m investment. The investment will grow to $30m with the addition of another production line – and the expansion associated with this.

A fully-owned production site at Lublin, in eastern Poland, will spread the Norwegian group's access to about a third of the total population. The introduction of Coke Lite, to be marketed alongside Coke, Sprite and Fanta, is the most important product change under way in Poland.

The launch of the Coke Lite was held up because a branch of the government objected to the presence of one ingredient in the vital imported syrup. However, the process for approval received a helping hand earlier this year when Mrs Hanna Suchocka, the former prime minister, asked Mr Roberto Goizueta, Coca-Cola's chief executive, who was then on a visit to Warsaw, when she might be able to buy the Coke Lite.

The reason for the delay was explained – and the rest is now part of Coca-Cola's history in Poland.

Ray Bashford looks at telecommunications

Trying to connect you – when we have more lines

THE visiting executives of AT&T quickly realised the task ahead of their company as they tried to telephone Warsaw from the plant the US telephone and telecommunications group recently acquired only 280 kms north east of the capital.

First they had a problem getting a line to the local operator. Then there was a long delay while the call was transferred to Warsaw. Mr Jerzy Bak, the president of AT&T Telfa in which AT&T has acquired a 94 per cent state, relates the incident while reflecting on the improvements that have taken place in his country's antiquated telecommunications system.

But while it is now possible to make such connections with much greater ease, enormous efforts are still required to drag the system up to European standards of efficiency and service.

Successive post-communist governments have given improvement of the telecommunications system a high priority. A well functioning telecom system is seen as a vital building block in the establishment of a free market economy – and indispensable for the encouragement of foreign investment. Politically, improved telecommunications also represent a symbol of higher living standards for millions of Poles.

Starved of foreign exchange and by-passed by the rapid changes which took place in western telecommunications during the past two decades, Poland has one of the lowest levels of telephone line ownerships in Europe, east and west.

Figures supplied to the Ministry of Telecommunications by Bain and Co, the management consultants advising the government on restructuring the industry, show that at the end of 1991 there were only 7.8 lines per 100 inhabitants. The closest comparison in western Europe is Portugal, with 20 lines per 100 inhabitants. Even to achieve Portugal's level by the end of the decade Poland needs to install nearly a million lines a year.The government has concluded that the cost will be in the region of $1bn a year.

Poland needs to install nearly a million telephone lines a year by the end of the decade – the government has concluded that the annual cost will be in the region of $1bn

At the beginning of this decade there was no digital computer technology and Poles relied on equipment which was often 30 years old. Equipment which came from the west during the past two decades was invariably outmoded. To tackle this backlog the government launched a wholesale restructuring programme for the industry which relies heavily on foreign capital and expertise.

The international and inter-city telephone network will remain in the hands of the state monopoly, TPSA, and 20 local operators. But the government is in the final stage of selling off formerly state owned manufacturers of switching and transmission gear.

At the time the decision was made to transform the industry, five of the 40 state-owned electronics companies dominated this area of the market. The financial position of all these groups was dire. Like much of Polish industry, domestic bank debt weighed them down and made them technically insolvent.

In line with the government's sectoral approach to industrial restructuring the government decided to "bundle" these five main producers and their associated operations into three companies and dispose of them to western groups, creating an oligopoly of foreign owned-switch and transmission makers. But the government has given no assurance on market shares, which will have to be fought for.

In each case two foreign companies were encouraged to bid for the enterprises on offer. The winner was decided primarily on the full bid price and the size and type of investment, job security and other commitments offered.

Mr Bak of AT and T concedes that in Telfa's case it had no financial and industrial future without an injection of foreign capital. "We were at least 15 years behind the west and had no chance of catching up, so we didn't look for half-way measures," he says.

Bidding against Ericsson of Sweden, AT&T won the right to an 80 per cent stake in Telfa for $35m. This holding was increased to 94 per cent following the sale of employees' shares to the company. The US group commited itself to invest a total of $86m on modernising the product line. An important part of AT&T's product innovation will be the introduction of its standard 5ESS switching system.

Another two producers, PZT and Teletra, were merged for the purpose of sale, and disposed to Alcatel of France after a competition in which Siemens and Northern Telecom took part. The two groups, with a combined workforce of 1,700, were sold for $46m with undertakings to lift the investment substantially.

The third piece should fall into place next September when the outcome of the competing bids by Siemens and Northern Telecom for the combined ZWUT and Elwro enterprises is expected. The upcoming decision is creating intense speculation in industry circles. The stakes are especially high in this sell-off, because the loser will be effectively excluded from the Polish market for the foreseeable future.

The merged ZWUT and Elwro will be the biggest group in terms of employees, with 4,000 on the payroll, although this staffing figure may be revised after the deal goes through. The investment commitment required will also be the largest, reflecting the importance of ZWUT.

Each of the three companies which will control the industry must achieve 50 per cent local content levels, a measure insisted on by the government to ensure development of ancillary suppliers. But the potential rewards for the foreign companies serving a domestic market of 40m people, starting from such low standards of service and equipment, are substantial.

For this reason the process of transformation will be watched closely, especially by those on the political sidelines who question the wisdom of transfering such a strategically important industry to full foreign control.

Christopher Bobinski takes a look at the local media

Professionals take over

POLAND'S media have reached a watershed, with state owned radio and television about to face competition from legally established private channels and competition at home and abroad thinning the ranks of once plentiful newspapers.

It seems a far cry from the heady days of 1989 and 1990, when writers wallowed in the freedom to write what they chose, and people looked to television and radio to express each and every point of view. Now, as advertising revenues loom ever more important, and readership figures become the key to survival, the professionals able to produce a marketable product are slowly taking over.

Fiercely partisan newspapers such as Nowy Swiat, which passionately attacked President Lech Walesa, have failed. Those dailies which are growing, such as Rzeczpospolita, which is half owned by the French Hersant group, or Gazeta Wyborcza, are expanding into smart non-political colour supplements and general features to attract the advertisers. Gazeta Wyborcza, with well over 500,000 readers, has emerged as Poland's best selling paper.

But it is in the broadcast media that the next 12 months will bring the greatest changes.

Poland's parliament has finally passed a broadcasting law which removes the state radio and television monopoly and puts in place a framework for the establishment of private national radio and television stations.

This does not mean that there has been no element of competition up to now. In Wroclaw, TV Echo was an early private broadcasting pioneer, operating on a one-off licence issued by the authorities. In Warsaw, Radio Zet, founded by Andrzej Wojciechowski, a talented journalist and organiser, filled the airwaves with western pop music and its own distinctive promotional jingles, as well as advertising.

Radio Zet captured well over a third of the listening audience. Now, in concert with British investors, the company is considering a move into the former Soviet Union, Bulgaria and eastern Germany.

Poles increasingly complain about intrusive television advertisements, but these continue to do wonders for sales

A plethora of radio and television "pirate" broadcasters without licences of any sort then took to the air, as the authorities waited helplessly for parliament to produce a law regulating the air waves.

Into this legal gap Mr Nicola Granso, a Sardinian media baron, has moved. He first provided equipment to 12 local television stations in an investment of about $30m – including, by his own account, his purchase of the ailing Zycie Warszawy daily.

Earlier this year he followed this up by providing each station with eight hours of programming daily, promising to provide advertising through Publitalia, a Berlusconi owned agency. Mr Grauso owns a 33 per cent share in each station, the most a foreign partner in a broadcasting company can legally own.

These broadcasters still have no licence. Theoretically they face prison once the requisite article of the new law comes into force on July 1. Mr Grauso has said he will consider what to do when that moment comes. Meanwhile he has shown every indication that he intends to apply to the new Broadcasting Council for regional licences.

This body, composed of nine men, was chosen by parliament and President Lech Walesa. Its political allegiances range right across the spectrum. It is headed by Mr Marek Markiewicz, a soft spoken lawyer from Lodz who, for the next four to six years, will not only be responsible for issuing licences but also for policing the airwaves.

Some time in the autumn the council will have to decide to whom they will hand the one national channel which will be available alongside State TV's first and second channels. The competitors include Bertelsmann, the owner of RTL and several Polish groups, including one called Super Television.

This is funded by a group of rich Poles who did well out of the communist 1980s and the last three years. Another is NTP, a group led by Miroslaw Chojecki, a veteran of the dissident publishing movement, who stresses his wish to provide programming which will play up Polish cultural values.

The unanswered question is whether the Polish economy can generate the revenues to sustain all this activity. Bertelsmann's representatives make no secret of the fact that the company only expects a return round about the turn of the century.

Most of the top names in world advertising now have a presence in Warsaw and campaigns have concentrated on state television and radio's prime time slots. These have become progressively more expensive, but at about $1,000 per 30 seconds, rates still lag behind those in the west.

According to Mr Brian Dunnion at Saatchi and Saatchi in Warsaw, the total advertising speed has risen to about $200m from $24.5m two years ago. The total spend is expected to grow, with western multinationals piling heaping on the pressure to sell their domestically produced and imported goods as Polish companies realise more and more that advertising is essential to survival.

For although Poles increasingly complain about intrusive television advertisements, these continue to do wonders for sales. Anything shown on television, the retailers say, begins to climb the sales curve. And Ms Anna Krajewska from NBS, a locally owned company which helped handle the publicity for the recent public share offer of the Wielkopolski Bank Kredytowy, even claims that the advertising campaign on television not only sold shares but also brought new clients into the bank.

Christopher Bobinski reviews the agricultural sector

Widespread complaints

Bad memories: food shopping in 1981

THE FARMER'S gesture as he drew his hand up to his nose left little to the imagination. The water, he was saying, had risen to the drowning point.

He was one of a thousand who marched through central Warsaw just before the fall of the government last month to demand more state aid for farming.

The farmer and his neighbours from Krzywda in Siedlce province, east of Warsaw, were despondent. "Nothing has changed for the better in the three years since the end of non-communist rule – and none of our neighbours have profited either."

Their holdings were not small by Polish standards. Several farmers had more than 10 hectares of land each, as do some 20 per cent of the country's 2.1m private farmers. But their frustration at not having the funds to develop was greater than the smallholders' who, as Mr Alexander Luczak of the PSL farmers' party says, have simply turned back to subsistence farming.

The complaints which brought the farmers to Warsaw were simple; food prices were too low; farming equipment and materials costs were too high; and the price of credit was prohibitive. They reiterated a common fear; that subsidised food from the European Community would bang the final nail into their coffin.

Such feelings are widespread in the countryside where more than 30 per cent of the Polish population still lives and works. Their complaints have posed a bigger political problem for successive Polish governments. But all have resisted repeated demands for farm subsidies and sought to keep trade barriers as low as possible since the collapse of the communist regime in 1989.

The statistics paint a slightly more optimistic picture. Poland enjoyed a modest $193m surplus in its food trade last year with the EC, which accounted for 8 per cent of the country's total 1992 foreign trade turnover. However, such figures did nothing to restrain farmers' anger at the recent ban on Polish exports of baby calves to the EC. The government rejected a demand by Brussels that the calves be subjected to a 14-day quarantine before shipment, a demand which strengthened fears that farming is being subjected to unfair competition. Brussels cited outbreaks of foot and mouth disease in the former Soviet bloc countries as justification. But the Poles replied that the last incident of foot and mouth in Poland was in the early 1970s.

Farm incomes as a whole have fallen by a half since 1988, although last year saw relief for some as farm gate prices rose by 62 per cent compared with a 37 per cent rise in the cost of farming inputs and a 43 per cent increase in consumer prices.

But this apparent improvement was largely the result of a natural calamity. Grain prices rose sharply as drought hit last year's harvest, which fell by 25 per cent to 20m tonnes – from 28m tonnes in 1991. Overall, farming incomes still dropped by 4 per cent on the previous year.

This year, the third consecutive year of lower fertiliser useage which reflects the farmers straightened circumstances, the grain crop is expected to reach about 22m tonnes. But it is the declining animal population, both pig and cattle, which tells the fuller story.

Meat production is dropping in response to depressed demand as working families who queued for hours for cheap, heavily subsidised meat during the communist period have adjusted to buying less of the now abundant, but expensive unsubsidised meat on offer at the largely privatised shops. Per capita meat consumption is set to drop further this year from 70 kg in 1992, below the 1980 level when meat shortages provided the backdrop to the workers' strikes which presaged the downfall of communism a decade later.

The greatest challenge facing Polish farmers is how to face up to the structural problems left over from 40 years of communism whose post-war leaders tried and failed to collectivise the farms and then left them alone in a patchwork of small holdings.

In 1989 a fifth of the land was state owned and the rest was in private hands. But the patchwork smallholdings are estimated to be six to seven times less efficient than the operations of farmers in the EC. Farming units will have to be larger if Poland is to compete on world markets.

For the moment, however, little is being done to address these issues; successive governments hope that the squeeze on farm incomes will, of itself, lead to more efficient production on the 14.3m hectares privately farmed.

Efforts are currently being focused on privatising the state farming sector, mostly large farms in those parts of western Poland depopulated by the forced exodus of ethnic Germans at the end of the war. A new state body, the Agricultural Ownership Agency, was established last year to take over and sell the 1,495 state farms with their 261,000 employees and 3.1m hectares of arable land.

Ironically, it is the once heavily subsidised state farms which are the right size for modern farming methods and which have the best chance of matching production costs abroad. Traditionally, grain yields have been higher in the state sector, which had privileged access to seed, fertilisers and equipment. Even in the 1992 harvest, when 15 per cent of the state farm arable land was left fallow, their grain yield per hectare was 34 per cent higher than on the private farms.

Foreigners in general are not welcomed as potential buyers

But the privatisation task will not be easy. The state farms remain indebted and many were neglected in the first couple of years of non-communist rule when subsidies were removed and their fate remained undecided. Foreigners in general and Germans in particular are not welcomed as potential buyers; they have to obtain a special permit from the Interior Ministry before a purchase can be made.

But domestic buyers are also scarce. By March 31 new Polish owners had been found for a mere 24,000 hectares of former state land and another 204,000 hectares had been leased to individual owners or employee owned companies.

Ray Bashford examines the role of foreign advisers

Firms criticised over fees and standard of advice

Doing very nicely without advisers, thank you . . .

INTERNATIONAL advice to Poland is not in short supply. Most of the international auditing, accounting and consultancy firms which flocked to eastern Europe at the start of the decade have nested in Warsaw.

Their main task has been to revise auditing and accounting methods and standards to conform with EC practice; and prepare state owned companies for privatisation and sale to foreign and local investors.

But the activities of highly paid foreign advisers have come in for criticism both over the standard of advice on offer and the fees charged. Some western firms echo these harsh words, but only in veiled reference to their competitors.

Mr Jurgen M. Wilms, the principal at McKinsey, the firm of management consultants, says: "We call some of the early consulting work "gold rush consultancy." Two years ago, he adds, the demand from the government and from companies was unlimited. "This is over," he says. "Now the international agencies are spending money more carefully and the Poles, through experience, are becoming much more critical of the sort of advice they are getting."

Western companies working here are reluctant to detail their own charges, but justify their fees on grounds of their higher skill levels, greater experience and the need to recoup heavy start-up costs on training and development.

Mr Jon Newbery of Arthur Andersen, the firm of accountants, is one who argues that the benefits received by Polish firms fully justify his firm's fees. Another consultant, who declined to be named, backs him, but cited a recent case of a Polish firm which concluded that a local bank was profitable. "We went in and found that it made losses of about 60 times the estimated profit. If someone had bought that bank they would have been in real trouble," he said.

Bain and Company, which undertook sectoral analysis in the detergents, cables, industrial gases and the telecommunications industries, claims that for each $1 in fees it has earned the state treasury $50 in revenues from subsequent acquisitions and capital investment.

Ms Henryka Bochniarz, a former industry minister who is president of Nicom, one of Poland's leading management consultants is an outspoken critic of foreign firms. But she also blames the ministry of privatisation for ignoring Polish firms with greater local knowledge.

Consultancy firms are highly complimentary about the motivation and educational standards of their local employees

"With money supplied from international funds the government used exclusively foreign firms," she says. "The government ignored the advantage we had of knowing how some of these companies worked – particularly at the time when people were afraid to talk because they might get into trouble."

She adds that exclusion from this work means that local firms have been denied the transfer of knowledge which would strengthen domestic standards and she further points out that this is contrary to the government's general rule of obtaining maximum knowledge and skill transfers.

Mrs Bochniarz also believes that certain leading international auditing firms and investment banks offered second-rate management consultancy work during the early years. She quotes a recent government study which concluded that advice on all aspects of the privatisation of an average Polish firm with a staff of 1000 carried out by a local firm would cost ZL400m ($25,000), compared with ZL2bn charged by foreign advisers.

Foreign advisers reply that the benefits of their work are sometimes not fully appreciated because the government sits on their findings.

Meanwhile foreign accountancy and management consultancy firms are highly complimentary about the motivation and educational standards of their local employees, as they expand recruitment of cheaper local staff. But this also has its negative effects. Government ministries – especially the finance ministry, which is recruiting extra tax and customs officers – complain about losing promising staff to foreign firms which offer substantially higher salaries together with international training. Universities are also hunting grounds for prospective staff.

For example, Arthur Andersen is hiring 50 graduates, which will raise its total staffing level in Warsaw to 165 by the end of the year. Only 15 of these will be expatriates, compared with 17 during the first year of operations, when the firm's total work force was only 34 people. Mr Newbery insists that his company is now a Polish company with a foreign parent; he forecasts that the first Polish national will be made a partner within three years.

Mr Antoni F. Reczek, an Anglo-Pole, talks of a similar rate of growth at the accountancy firm of Cooper & Lybrand, where total staff numbers should rise from 85 to 100 by the end of the year. Only 12 are expatriates. Similarly, McKinsey and Company, which opened its office in Warsaw last February, is giving international training to 20 locally hired staff as it raises standards and gives local staff greater responsibility. Mr Wilms sums up: "My job is to make myself obsolete."

The welcome heirs to cultural imperialism arrive in Poland bringing tubas, not tanks: Russian buskers delight the crowds in the heart of Warsaw

Anthony Robinson assesses Poland's foreign policy

The atmosphere warms up

POLES understand the importance of diplomacy and foreign policy. Living in a flat country surrounded by Russians and Germans, their history has taught them to take relations with their more powerful neighbours – and events further afield – very seriously.

This is one reason why Mr Krzysztof Skubiszewski, the 67 year old former international law professor from the Poznan academy of sciences, has become the Talleyrand of post-communist Poland. Five governments have come and gone, but the urbane Skubiszewski has soldiered on as foreign minister throughout, giving Polish diplomacy a continuity lacking in other areas.

His steady hand on the tiller has helped steer Poland through a period of breathtaking change since demolition of the Berlin Wall in November 1989 and Moscow's adoption of the "Sinatra doctrine." Moscow's benign indifference to the fate of its former satellites completely changed the context in which Poland found itself.

On Poland's western border the re-unification of Germany has taken place in circumstances which guarantee that Germany will be largely self-absorbed for years.

But it also opens up new prospects for cross-border co-operation, following signature of the Polish-German treaty which guarantees the Oder-Neisse border line and marks formal Germany acceptance of the loss of most of former Pomerania and Prussia.

To the north, the end of the cold war offers hope for co-operation across the Baltic, while relations with newly divorced Slovakia and the Czech republic in the south are problem free – and institutionalised,' to a degree, by moves towards freer trade under the auspices of the Visegrad accord between the central European states.

It is on the east that the biggest changes have taken place. No longer hemmed in by a monolithic Soviet state, Warsaw can now deal with a patchwork quilt of small or medium sized nations similar to western Europe. Poland's only physical contact with Russian territory is along the southern borders of the Kaliningrad enclave. Elsewhere it now borders Lithuania, Belarus and Ukraine, all independent states with whom it is once again possible to have "normal" political, economic and trading links.

"For the first time in over three centuries we no longer have a huge neighbour to our east. This means that we can once again have an active eastern policy. Thanks to our experience in political and economic transformation we feel that we have lot to give our neighbours and to Russia itself," Mr Skubiszewski explains. "They especially need help in creating the institutions of a modern state and a market economy. We can help them in this respect."

While relishing Poland's new-found freedom of action, Mr Skubiszewski constantly underlines Poland's sense of belonging to western Europe. "For Poland, eventual full membership of an enlarged European Community is the solution for our future. The established nations of western Europe could perhaps survive without the EC. But Poland is a state whose existence was

> EC mishandling of the Yugoslav crisis and the narrowly focused nit-picking reality of EC trade negotiations has led to a more critical approach

eliminated for over 150 years.Membership of the EC would make us feel safe," he explains.

Membership of the EC is so important to Poland that the outgoing government appointed Mr Jan Krzysztof Bielecki, a former prime minister, as minister for relations with Europe. He was charged partly with raising Poland's profile in Brussels, but also to ensure that Poland's laws and institutions change in conformity with EC practice.

But the EC's mishandling of the Yugoslav crisis, the narrowly-focused, nit-picking reality of EC trade negotiations, member states' delay in ratifying the Association Agreements with Poland and other post-communist states, and what Mr Skubiszewski gently chides as "a tendency in the west to wash their hands of the complexity of post-communist transformation and an obsession with stability", has led to a more critical approach in recent months. "We want co-operation with the EC in reaching common political decisions, not just a dialogue," Mr Skubiszewski adds.

With the Copenhagen summit in mind, the foreign minister recently accompanied President Lech Walesa to Portugal. This was part of an effort to persuade the EC's southern European members that amending the Association Agreements to grant central Europe greater EC market access to sensitive products such as steel, textiles and food products should not be seen as a threat, but as an opportunity for increased trade in both directions.

Poland's drive for full integration into the EC ultimately reflects a demand for recognition that, to all intents and purposes, the real border between the "west" and eastern Europe now runs down Poland's eastern frontier.

This was underlined last month when Warsaw, after months of negotiations with Bonn, agreed to stricter passport, visa and other controls along Poland's eastern and southern borders, and to turn back would-be illegal immigrants before they could reach Germany and fall foul of Bonn's tighter asylum laws.

"We understood Germany's difficulties and reached a reasonable agreement. It imposes upon us the duty to watch out for those who come from the east, not just former Soviet citizens but also Romanians, Bulgarians and others hoping to slip in through Ukraine."

In co-operating with Germany in this matter, Mr Skubiszewski adds: "Poland showed that it regards the problem of immigration as a European problem which is therefore also our problem."

But the influx of east Europeans into Poland also shows how three years of often painful economic reforms have turned Poland itself into a land of hope and economic opportunity for millions of east Europeans from the former Soviet Union. Controls on the border have been tightened.

Many Poles can still remember recent times when they were just like the impoverished traders and job seekers from further east who now crowd Poland's outdoor markets or busk in the city squares. This ensures that there is still a humanity about Polish relations with its poorer neighbours – alongside the determination to be treated as an equal by the west.

Christopher Bobinski looks at the Phare projects

Preparing for eventual membership of EC

AT Natolin Palace, in an old park on Warsaw's southern outskirts, postgraduates from the two halves of Europe are completing a 12-month conrse devoted to every aspect of European integration.

The house, built in the 1780s for Princess Elzbieta Lubomirska, is where communist party hardliners had plotted their power plays in 1956 during the Hungarian crisis and Poland's concurrent liberalisation.

It is a fit setting for academic endeavour to help stitch together the formerly divided eastern and western parts of Europe. The course is organised by the Bruges-based College d'Europe and financed ont of Enropean Commnnity funds. And Natolin is being refurbished with money generated from early EC food transfer programmes. The project is part of the Community's Phare effort, the largest of the programmes aimed at helping Poland and her neighbours prepare for eventual Commnnity membership.

The sums involved are paltry compared to regional aid programmes within the EC, hnt each year since 1990 Poland has been allocated Ecu 200m nnder Phare. This annnal amount is being lncreased to Ecn 225m for three years from Jannary 1993.

The size of the annual allocation is decided in Brussels, but its various end-users are selected through a time consuming process attempting to match, with varying success, not only Brussels' wishes but also the needs and priorities of the Poles.

In 1990 food aid received a high profile with half of the funds made available devoted to supplies of animal feed, pesticides and credits for the farming sector. Owing to the slnmp in Polish farming incomes and continuing high interest rates, the Ecn 30m credit line then allocated has yet to be taken up. But the pesticides and feed has been sold with the proceeds going into a co-operation fund now worth 300hn zloty. This fund supports other Phare projects which have local input.

Since then farming has been a smaller recipient of EC aid programmes, not least because Polish government priorities have tended to play down the sector. Indeed for the next three years a mere 7 per cent of the Ecu 675m allocated to Poland will go to farming.

As most aid organisations know, collection and allocation of funds is only half the struggle. There have been controversies over whether the projects chosen in Poland have been the right ones and

> The British government's know-how fund is one of the first bilateral funds to have become operational

whether they have been designed more to favour the donor than the recipient.

Spending the money can be a problem in itself. In Poland's case there have been delays, with only 60 per cent of the total fnnds allocated for 1991 and 1992spent, and only 12 per cent of the Ecu 200m for this year disbursed.

The higher and secondary education sector has been a star performer with the beneficiaries promptly drawing and spending the Ecn' 53m allocated to them since 1990.

The British government's know-how fund is one of the first bi-lateral funds to have become operational and has spent £30m of its £50m allocation to Poland, with most allocated to providing advice on privatisation and other financial matters. Phare, by contrast, is giving a high priority to edncation exchanges and edncational reform. As mnch as Ecu 125m, or nearly one fifth of the total Phare fund for the next three years, is to be spent on this sector.

Phare has also made financial assistance available to assist privatisation, financial reforms and indnstrial restructuring. At the government-owned Indnstrial Restrncturing Agency, Dr Lothar Nettekoven, an EC-funded expert, says that the technical assistance provided to the agency, and through it to enterprises, has transformed the unit completely. It is now a much more sophisticated organisation capable of dealing on its own terms with the ontside world, he says.

Mr Marek Krawczyk, a director at the agency agrees, pointing to the EC funds which have been spent hiring advisers for the Ministry of Industry. They have helped the ministry deal with Lucchini, the Italian steel maker which took over the Warsaw steelworks, Pilkington, which set np a joint venture with the Sandomierz glass works, and Volkswagen, which linked np with the Tarpan light truck factory in Poznan.

Bnt the Phare programme is soon to undergo a subtle shift, in line with the wishes of the Poles. The new policy will take it away from technical assistance and towards direct investment projects aimed at generating growth in high unemployment areas.

Four snch areas have now been identified, Walbrzych in the sonth west, the textile town of Lodz, 130km west of Warsaw, Snwalki, in the north east and the Mielec area to the south. Here Ecn 60m worth of funds are to be spent this year under the Strnder programme, followed by another Ecn 32m and Ecu 37m in 1994 and 1995 respectively, on equity investment, grants and loans, in an effort to generate jobs.

Other areas covered by Phare inclnde aid to Poland's foreign investment agency as well as export and tourist promotion efforts. A main chunk worth Ecu 80m is to he spent on rail and road transport planning schemes. Fewer funds are available for other urgently needed projects snch as modernising the Polish cnstoms service and tackling environmental problems.

Built as Berlin's port, Szczecin is returning to its former glory as Poland's outpost on the western Baltic

Anthony Robinson and Christopher Bobinski visit Szczecin

Gateway to the west

THE end of the cold war and the decision to restore Berlin as the capital of a re-united Germany have opened up exciting long term growth prospects for Szczecin and much of western Poland.

While Berlin was the divided capital of a divided country – "a PX surrounded by Russians," in US comedian Bob Hope's immortal phrase – the east German government spent heavily to build up the old Hansa trading city and fishing port of Rostock as a substitute for the loss of Stettin, the German name for Berlin's traditional gateway to the sea.

Large federal subsidies continue to be pumped into Rostock and the surrounding Mecklenburg province, where unemployment is up to 40 per cent in some parts. But Rostock is 200 kms from Berlin by inadequate roads and a slow railway, while Szczecin lies only 140 kms away from the restored capital, at the other end of an autobahn built during the Hitler era. More important for a city engaged in the throes of a redevelopment boom, Berlin is connected to Szczecin, and its sister port Swinoujscie on the Baltic, by a network of canals.

These inland waterways date from the Bismarck era. They were built for the cheap shipment of bulk goods – grain, steel, cement – into the very heart of eastern Germany and along the valley of the River Oder. After the end of the second world war in 1945 the canals, the autobahn and the railways were under-used.

Under the communist regime Szczecin's port, 65 kms from the open Baltic, was starved of investment

This is changing. "Of the 13m tonnes of cargo which passed through the port in 1992 over 2m tonnes was transit traffic. Of this, about 900,000 tonnes would have passed through Rostock before re-unification," says Mr Michal Popik, general director of the recently privatised and re-organised Szczecin-Swinoujscie port authority.

He has little doubt that volumes will grow further as cost effectiveness replaces political will as the leitmotiv of economic activity on both sides of the German-Polish border. Fast Shipping, a Belgian-UK-Polish joint venture, has already built a new 8,000 sq metre general cargo warehouse and 500 metre long dedicated quay. New chemical handling facilities have also been built, along with a $15m, 16,000 ton capacity cold store and Poland's first banana-ripening facility.

The cold store is owned by Lodom, a Polish-American joint venture with finance from the Polish American enterprise fund. Wolf, an Austrian timber and wooden frame house building company, wants to set up a saw mill to process cheap timber from Russia.

Looking further ahead, the port plans to build a large container and general cargo terminal on Grabowski island, adjacent to port facilities, and to create a free port manufacturing and transhipment area.

Under the communist regime Szczecin's port, 65 kms from the open Baltic, was starved of investment, which was concentrated on the coastal port of Swinoujscie, also a Soviet naval base for over 40 years. Swinoujscie was developed as Poland's main bulk handling port, capable of unloading ships of up to 14 metres draught.

Swinoujscie is also the southern base for the twice-daily car/passenger and freight ferry service across the Baltic from the Swedish port of Ystad; a five times weekly ferry service to Copenhagen; and regular sailing by Euro-africa, Polish Baltic and Fast lines to other Baltic and Scandinavian ports, Germany, the UK and Africa. The ferry terminal is leased to the Polish Baltic Shipping Company by the local municipality which, together with the shipping line and the ministry of transport, is investing 16bn zloty in a new passenger terminal scheduled for completion by 1994.

Until 18 months ago Swinoujscie handled mainly coal exports, phosphates and iron ore. Now, like Szczecin, it also unloads general cargo and is considering building a coal import facility. This move angers Silesian coal miners, who fear that cheap imported coal from South Africa and elsewhere might replace expensively rail-freighted Silesian coal in the city's Dolna Odra power station.

Together, the twin ports of Swinoujscie and Szczecin are running at less than under 60 per cent of their 22/24m tonne handling capacity, mainly because of a decline in coal exports. But specialised wharves owned by individual companies handle a further 7m tonnes, bringing total throughput to about 20m tonnes. All expect to benefit strongly from the eventual recovery of the east German economy and rapid economic growth in Poland's western provinces.

What has changed most in the last three years is the nature of the Oder-Neisse line. The border formed by these two rivers divided post-war Poland from East Germany for over 40 years. It is now the frontier between a democratic Poland which aspires to full EC membership, and a re-united but somewhat traumatised Germany.

It was partly to preserve the increasingly porous nature of this border for Polish-German trade that Poland agreed to co-operate with the drafters of Germany's new asylum laws which depend largely on tighter surveillance of illegal immigrants from the former Soviet Union and the Balkan countries on Poland's eastern and southern borders.

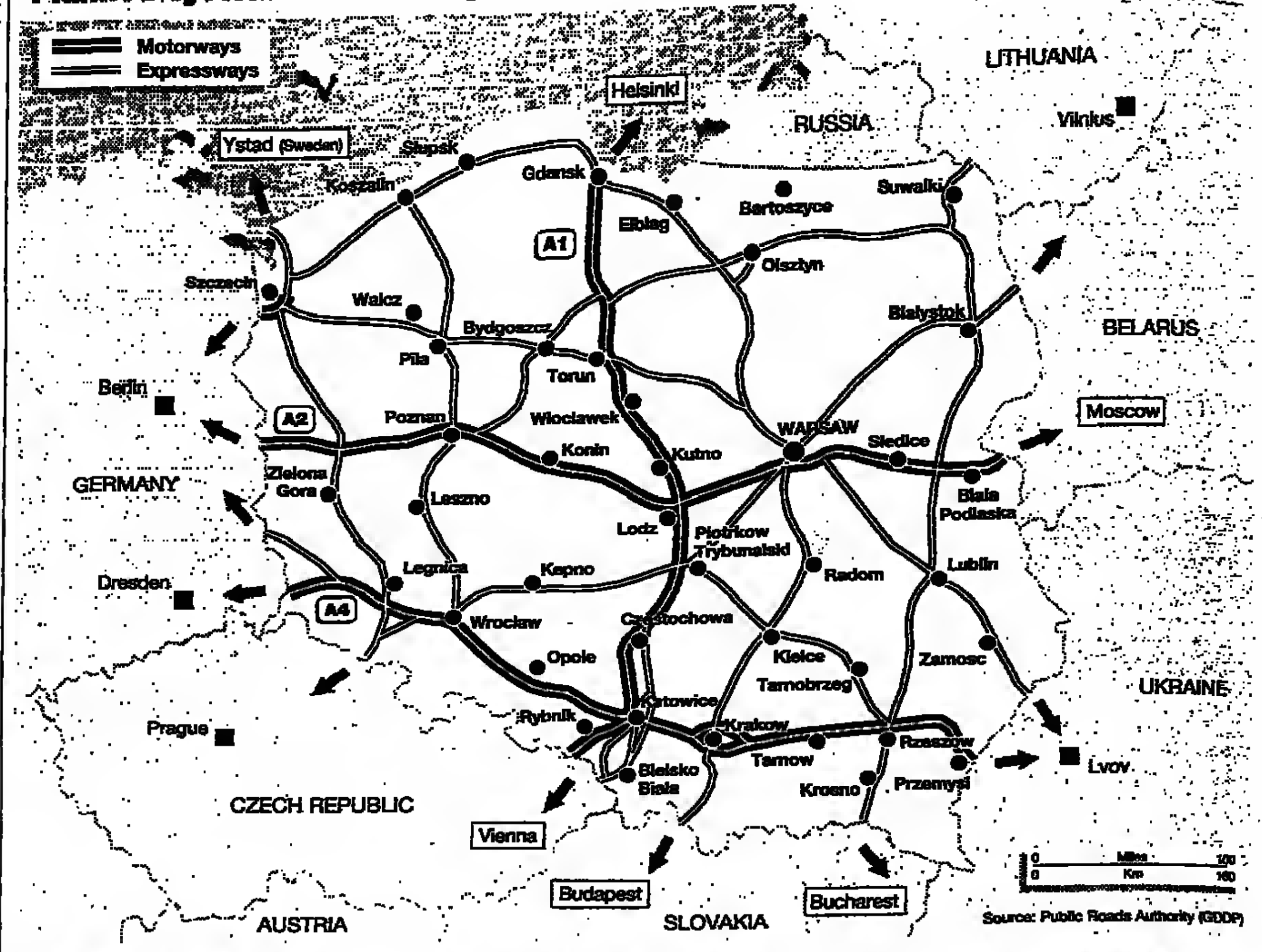
The end of the cold war has given Germany and Poland a unique opportunity to improve their bilateral relations

Already, new supermarkets and stores have opened up on the Polish side of the border to attract German customers. and Radisson, the US hotel chain, has taken management control of a new $150m luxury hotel, business and shopping centre, which is designed to attract business to the city.

For close observers on both sides, such as like Mr Klaus-Heinrich Standke of Berlin's East-West Economic Academy, and Mr Marek Talasiewicz, the prefect of Szczecin province, the end of the cold war has given Germany and Poland a unique opportunity to make the kind of effort made by France and Germany, former wartime enemies, to put into improve their bilateral relations after the war.

Such a rapprochement was impossible while East Germany and Poland were socialist "brothers" in an artificial partnership dictated from Moscow. But now that it is once more possible to build normal relations between sovereign states, academics and politicians on both sides of the border are not only talking about ways of improving bilateral relations, but also about forging stronger links with Denmark and Sweden. They are and looking ahead to the eventual creation of a new EC "euro-region" at the western end of the Baltic.

Planned system of motorways and expressways



Modernising the Polish road network is one of the most important tasks if the vision of Europe from the Atlantic to the Ural mountains is ever to become a reality, writes Anthony Robinson.

But billions of dollars of foreign financing will be needed to build new toll roads and expressways now on the drawing board.

Poland is perfect for motorways. Most of the country is flat or gently undulating; land is currently cheap; skilled and unskilled labour is both cheap and plentiful. Modern highways linking Scandinavia with central Europe, or western Europe to Moscow or the Ukraine, would provide much needed employment in Poland. Furthermore, they would tie the Baltic states, European Russia, Belorussia and Ukraine into the existing European motorway system.

In 1992 the Polish ministry of transport developed a $3bn highway programme for the construction of 1,960km of new highways.

The aim is to complete them by the year 2010. Financing for the project is to be provided by a combination of tolls, franchise fees from foreign carriers, loans from the World Bank, the European Bank for Reconstruction and Development, and private investors.

Top priority goes to completing three cross country motorway projects: the 579km long A1 North-South highway connecting Scandinavia through the port of Gdansk past Lodz and on to Katowice and the Czech border; the 626km long A2 East-West axis, which extends the existing autobahn from Berlin past Poznan, Lodz and Warsaw to the Belorussian frontier and then on to Moscow; and the 738km long southern route from Dresden which runs through Silesia past Wroclaw, Katowice and Krakov and on to Lvov in western Ukraine.

Such a network would transform the Polish communications system. It would have a dramatic effect on the prosperity of towns such as Lodz, now a depressed textile town, but likely to take on a new lease of life at the intersection of the main east-west andnorth-south highways.

Lugano as a financial centre: Haven for rich Italians: Page 2

TICINO

The tourist industry: Aiming for culture vultures: Page 4

Ticino, like most European regions, has suffered an economic downturn – although the impact has been softened by the canton's peculiar economic structure. But beneath the relative economic calm, there is evidence of a growing unease. **Ian Rodger** reports

Evidence of unease in gilded cage

TICINO, Switzerland's Italian-speaking canton, haa become something of a bird in a gilded cage.

Its gentle people enjoy a largely unearned prosperity, benefiting from the efforts of their more energetic Swiss cousins to build industry there, and from the venality of Italian institutions, which has enabled the canton to become a thriving financial haven.

The Ticinese are also lucky in their geography, occupying one of Europe's strategic and truly blessed plots.

An inverted triangle stretching from the highest mountains in the north to the outskirts of Milan in the south, Ticino contains no fewer than four north-south road passes and one important rail pass through the Alps.

Its transit vocation is about to be significantly enhanced, thanks to the Swiss government's bold plan to build a new high-speed rail tunnel under the Gotthard pass over the next decade.

The canton also packs an extraordinary variety of landscape and climate – from glaciers to palm trees – into its less than 100km of length, and tourism now accounts for about a quarter of its estimated SFr10bn gross product.

Ticino'a exceptional prosperity is a recent phenomenon. Until the opening of the first rail tunnel through the Gotthard pass in 1882, it was a poor canton populated mainly hy subsistence farmers. Its principal export was people.

Today, the Ticinese themselves marvel at hnw little benefit they gained over the centuries from the beavy traffic of people and goods that crossed over the Gotthard before the rail line was built.

Thereafter, it was mainly Swiss-German entrepreneurs who developed the canton's industries, concentrating on the ones – banking and tourism – that seemed most promising to them.

Manufacturing industries remain underdeveloped and largely dependent on low-paid day workers coming from Italy. "We have an economy that is structurally weak," Mr Dick Marty, the cantonal governor, admits.

Like most European regions, Ticino has suffered from an economic downturn in the past few years, but the impact has been softened by the canton's peculiar economic structure.

The construction industry has been hardest hit, but job losses there have been borne largely by the so-called *frontalieri* who come from Italy every day to work in the canton. Their number has tumbled from 40,000 two years ago to 35,000.

Meanwhile, the political turmoil in Italy has kept activity brisk in Ticinese banks.

But beneath the relative economic calm, there is evidence of growing unease within the gilded cage. A new nationalist political party, the Lega dei Ticinesi, has sprung up in the past two years and become a leading force in the canton's political life.

The Lega, led hy a garrulous huilding contractor, plays effectively to Ticinese sensitivities. On the one hand, it rails at perceived slights or injustices inflicted on the canton by the country's Swiss-German majority, while on the other it displays a self-satisfied disdain for disorderly Italians.

Ticinese identity has become a delicate issue in the past few years, which is hardly surprising considering its fragility.

The Ticinese represent a large majority of the Italian-speaking community of Switzerland, yet the cantonal population is little more than 4 per cent of the national total. Ticino has no university and many of its bright students go to German or French language colleges nortb of the Alps never to return.

Only a bare majority of the canton's 290,000 population has local roots. A quarter are foreign and the rest are mainly German-Swiss. More than half of the capital invested in industry is of external origin and all of the big banks are controlled from outside.

As tourism is an important factor in the economy, the foreign presence often seems even larger than it is and, in some instances, becomes suffocating. In the centre of Ascona, an exquisite medieval town on Lago Maggiore, German appears to have become the dominant language, causing anxiety about a more general encroachment. "The Swiss-Germans regard Ticino as *'our verandah'*", says Mr Raffaello Ceschi, a local historian.

But the Ticinese clearly prize their attachment to Switzerland and there is not a whiff of separatist sentiment in the new nationalist wind.

Perhaps that is partly because they know that they get economic benefits from the federal government disproportionate to their size. Many of them are also among the more committed participants in Switzerland's militia army, unlike tbe French-Swiss, who tend not to take it very seriously.

The Ticinese attitude to Italy is also complex. They obviously have much affection for their Italian neighbours, and recognise the value of Italy as their only source of cultural support. The television antennas in Ticino all point south.

But they also seek to keep a certain distance from their neighbours to the south, whom they seem to look down upon. Most Swiss – and many Ticinese – were shocked when a majority of the canton's citizens voted last December against joining the European Economic Area (EEA), the enlarged free trade area that would have brought Switzerland closer to the European Community, including Italy.

Normally, Ticino, like the French-speaking cantons of Switzerland, is understood to be pro-European because of the obvious benefits to be gained from easing contacts with EC neighbours.

Ticinese leaders say the No vote, which was championed by tbe Lega, was largely a defensive response to the current upheavals in Italy. They feared a flood of immigrants and a lowering nf their standard of living.

"If the vote had taken place at a mnre propitious time, it would have been positive," Mr Claudin Generali, chairman of Banca del Gottardo, says.

The Ticino government and the business community nevertheless see the canton becoming increasingly dependent on closer links with its southern neighbour. Mr Generali says the canton is luckier than other Swiss horder cantons, having such a bighly developed industrial region nn its doorstep.

Efforts are being made at the official level to institutionalise contacts with the Italian provinces of Como and Varese and a "Reginne dei Tre Laghi" (Region of the three lakes) is in embryo form.

In the meantime, the canton's economic future will continue tn depend largely on banking and tourism.

The hanking sector seems well placed, having been strengthened in the past few years by the addition of several banks which are neither Swiss nor Italian. "We have the critical mass now to be a second-tier internatinnal financial centre," Mr Generali says.

Banking leaders are also trying to become more professional and to do whatever else is necessary to get rid of the community's image as a centre for carrying out dodgy transactions and for stashing away hot money.

The outlook for tourism is less clear because the canton finds it difficult to compete with lower-cost destinations in Europe. However, even the nationalistic Lega dei Ticinesi believes in its expansion. Mr Flavio Maspoli, one of the Lega leaders, says the canton should stop setting up industrial development zones – "there are too many industrial zones" – and concentrate on luring more tourists with casinos and golf courses.

If that is the view of the nationalists, it suggests that the bird at heart still likes its gilded cage.

In the centre of Ascona, an exquisite medieval town on Lago Maggiore, German appears to have become the dominant language, causing anxiety about a more general encroachment

■ LUGANO AS A FINANCIAL CENTRE

A haven for rich Italians

TICINO'S main claim to fame in the post-war period has been its position as a financial haven for rich Italians.

Lugano is the third-largest banking centre in Switzerland after Zurich and Geneva and boasts no fewer than 56 banks operating within its confines.

Because most of the business of these banks is in private banking – that is, managing the fortunes of rich people – there are no hard statistics about the magnitude of the funds held. But there are some indications.

It is believed that Swiss Bank Corporation (SBC), since acquiring control of Banca della Svizzera Italiana (BSI) last year, has overtaken Union Bank of Switzerland as the largest bank in Ticino, with something close to SFr60bn under management.

Credit Suisse, the third-largest, recently revealed that 18 per cent of its funds under management in Switzerland are in Ticino branches, even though only a tenth of its personnel is there.

No one denies that the lion's share of the funds placed in Ticino banks comes from Italy. "After the war, Italian industrialists did not have confidence in their own financial system, so they came to Ticino," says Mr Claudio Generali, chairman of Banca del Gottardo, itself a post-war creation which is now controlled by Japan's Sumitomo Bank.

Mr Generali and others do point out, however, that the Ticino banks provide not only fund management services but also commercial banking for Italian companies. Fiat, for example, has a large financial subsidiary based in Lugano with assets of some SFr3bn, and many Italian companies organise export finance through Lugano because the service is better than that available from Italian banks.

Mr Luigi Butti, general manager of BSI, notes that the Italian banking industry "lost a generation of expertise" when capital export controls were introduced in 1976. "Certainly, they will catch up, but it will take a very long time in the provinces."

Managing the fortunes of rich Italian individuals has not always left Lugano with the best image, either in Switzerland or in Italy.

Lugano bankers got a particularly bad reputation in the late 1970s and 1980s following the prohibition of capital exports from Italy. Everyone knew that in the subsequent years all sorts of sharp schemes were being devised in Lugano and elsewhere to enable rich people to get their money out.

The inflow of funds in the past few months has been very brisk

In the past two years since Italy removed exchange controls the criticism has eased somewhat. However, as Mr Generali puts it: "It is still not considered exactly proper in Italy to put your money in Switzerland."

The bad smell has re-emerged in recent months with the Tangentopoli political scandals in Italy. UBS, in particular, has had to face a lot of bad publicity over the tantalisingly-named "protezione" account (that was the password needed to gain access to it) in its Lugano branch. The account was used for funnelling pay-offs from state-owned industry to politicians.

But Lugano bankers point out that the protezione account was closed as long ago as 1981 and that they have all become much more careful in recent years about who they deal with. Also, Switzerland's legislation on money laundering and dealing with criminals has become much tougher.

"I think the banks understand now that they do not have any interest in going after questionable business," says Mr Dick Marty, Ticino's governor and a former chief prosecutor famous for investigating money-laundering cases. "In any event, there is enough good business for them to go after," Mr Marty says.

Indeed, by all accounts, the inflow of funds in the past few months has been very brisk because of the political instability in Italy, and the outlook appears good. Mr Butti sees new opportunities in Italy because so much of the Italian government's huge deficit is almost entirely financed by domestic bonds. Both the government and individual investors urgently need to diversify their portfolios, he says.

Ticino bankers are aware that it is only a matter of time before Italian banks becomes more competitive in fund management and other services, so they are putting a lot of effort into training and generally improving standards.

"The system grew very quickly in the past 30 years with a readily available market, and so the development of organisations was rather anarchic with some important gaps in education," says Mr René Chopard, director of the new Centro di Studi Bancari (CSB).

The CSB was set up three years ago by the Ticino Association of Bankers, which groups 23 of the banks representing 90 per cent of the employees in the sector, with a view to providing post-secondary courses for member bank employees.

It now offers a general four-week first year university-equivalent course in banking and economics and a nine-week course spread over three years for senior managers. The centre also generates research and sponsors seminars that are open to the public.

The relatively stable structure of Ticino banking was rocked last year when SBC moved in on BSI, turning it into the core of its group of small private banks in Switzerland.

BSI's commercial and retail branch network north of the Alps has been shut down; in Ticino, even though it claims officially that it will remain a universal bank, commercial and retail business is being de-emphasised. Last year, 430 jobs, a third of the bank's workforce, were eliminated. Mr Butti says further reductions will take place only through natural attrition.

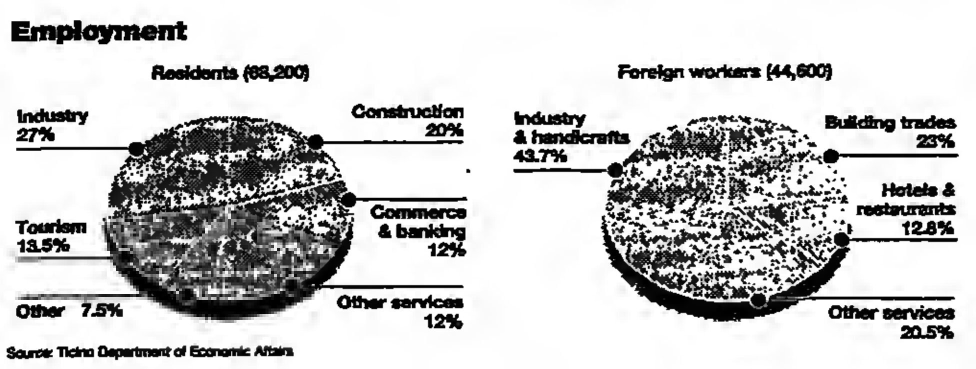
The remaining big question in Lugano is over the future of Banca del Gottardo. Rumours have raged for months that Sumitomo Bank, which bought 51 per cent in 1984 for SFr212m, would like to sell. The argument is that Sumitomo, like most Japanese banks, is in need of capital. Moreover, the Swiss capital market is no longer as active for Japanese issuers as it used to be.

Sumitomo has consistently denied any intention of selling Gottardo, but bankers in Lugano suspect that this stance has a lot to do with face-saving. A sale now would be a sign of weakness.

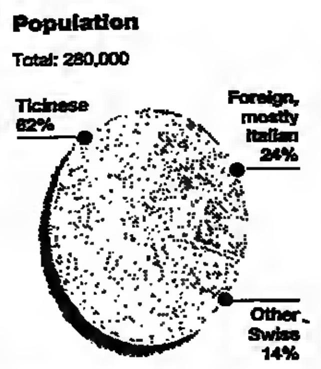
If Sumitomo did sell, it would present an opportunity for the Ticinese themselves to take control of one of the top banks. At the moment, no significant bank in the canton is locally owned. But the betting in Lugano is that UBS will be the purchaser.

Ian Rodger

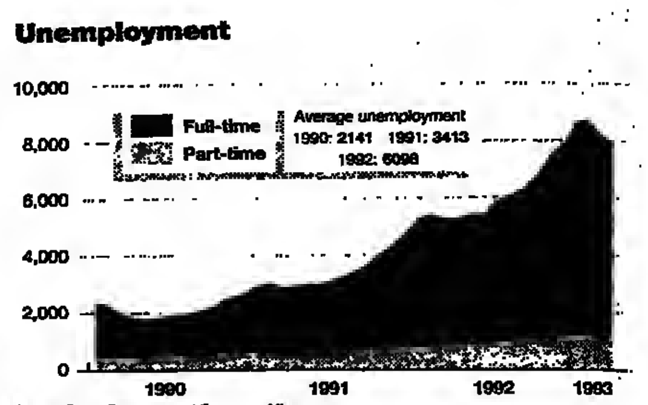
Banca del Gottardo: Rumours have raged for months that Sumitomo Bank, which bought 51 per cent in 1984 for SFr212m, would like to sell



Source: Ticino Department of Economic Affairs



Source: Ticino Department of Economic Affairs



Source: Ticino Department of Economic Affairs

■ THE ECONOMY

Circles of fortune

PROMOTERS of regional economies love to illustrate the attraction of their territory by drawing concentric circles around it to show the size of the regional market.

Few, however, are as lucky as those whose job it is to promote Ticino. Within a 70km radius of Chiasso there are 6m people. Extend the radius slightly further and the circle encompasses most of northern Italy, one of the most productive and prosperous areas in Europe. The exercise is also revealing, for Ticino's economy depends for its health to an extraordinary extent on various links with Italy.

For most of the post-war period, those links have enabled the canton to build a standard of living that the majority of Italians can only dream of. Per capita income of SFr33,078 in 1990, while 20 per cent below the Swiss average, is well above that in most of the Organisation for Economic Co-operation and Development countries.

Some 35,000 people cross the border between Italy and Ticino every day to work in the canton, providing about a third of the total workforce. About 10 per cent of the canton's exports go to Italy; most of the funds managed by Ticino banks come from Italy.

Yet in the past couple of years things have turned somewhat sour as the economic effects of the upheavals south of the border have exacerbated a slump that was already hurting. Many Ticino companies, especially those in the important machinery and clothing sectors, depend on Italian industry for orders.

The Ticino economy has a curious structure; it is based mainly on finance and tourism. Industry is relatively underdeveloped as is agriculture because of the largely mountainous terrain.

While there are no official statistics, economists estimate that the canton's gross domestic product is in the vicinity of SFr10bn, of which industry accounts for roughly 20 per cent and construction another 20 per cent. Tourism accounts for about a quarter and finance the rest, except for a modest 2 per cent which comes from agriculture.

Until the late 19th century, Ticino was a poor rural area

Until the late 19th century, Ticino was a poor rural area, dependent on subsistance mountain agriculture. In recent decades, agriculture has declined drastically in importance, but farmers have become more productive, taking advantage of the semi-tropical climate to concentrate on market gardening and to develop a pleasant, if rather expensive, line of Merlot wines.

The canton largely missed the beginnings of the industrial revolution, being effectively cut off from northern Switzerland where Brown Boveri and Sulzer Brothers established a pioneering engineering industry.

But the opening of the Gotthard railway tunnel in 1882 changed things, providing the opportunity for Ticinese artisans to work on the tunnel project itself and later bringing entrepreneurs south of the Alps.

Development proceeded slowly until after the Second World War when both manufacturing and the financial sector took off simultaneously.

In both cases, development owed a lot to the canton's cultural and geographical proximity to Italy. In the case of manufacturing, the neighbouring Italian provinces of Como and Varese provided the cheap labour that attracted Swiss textile, clothing and metal goods producers to the canton.

Even today, most of these companies are strung along the Italian border, facilitating commuting for the tens of thousands of workers who come in every day.

"Without the frontalieri, we could not have done it," says Mr Franco Citterio, secretary of the Association of Ticinese Industries.

Perhaps reflecting the Italian connection, most of the 500-odd industrial companies in the canton tend to be small, employing fewer than 100 people. It is difficult to think of a single Ticinese company that is a household name outside of the canton.

The industrial structure is also characterised by a very high degree of foreign ownership. Mr Citterio estimates that half of the capital invested in industry comes from outside the canton, mainly from German Switzerland and Italy.

In the past, the Ticinese have resented the significant Swiss-German presence. "In the 1930s, they installed a sort of apartheid. There were only 10,000 of them, but they were in all the top places," says Mr Raffaello Ceschi, a Ticino historian.

In the past, the canton maintained its prosperity in difficult times simply by exporting its unemployment. When jobs disappeared, the authorities removed the work permits from the Italian frontalieri. Today, partly because of a change in Swiss laws, this is no longer so easy. Unemployment soared from an average of 1.9 per cent in 1990 to 5.3 per cent last year, the highest in Switzerland. At year end, there more more than 8,000 out of work.

However, as Mr Dick Marty, the cantonal governor, points out, it is difficult to get too alarmed at this development. The fact that there are still 35,000 frontalieri coming in every day means that the 8,000 are not so desperate that they will take any job available.

Indeed, it could be argued that the frontalieri are still taking the brunt of the burden. Officials estimate that the number of workers crossing the border every day has plunged from 40,000 to 35,000 in the past two years. Much of this fall is due to the slump in the outsize construction industry, where labour turnover is notoriously high anyway.

Analysts doubt that employment will rise rapidly even when economic recovery comes because most companies feel an urgent need to improve productivity. The high value of the Swiss franc and high Swiss wage rates make it increasingly difficult for them to compete in world markets.

Another source of anxiety is the rejection by Swiss voters last year of the European Economic Area (EEA). "It is still difficult to see any impacts of the vote," Mr Citterio says, but manufacturers fear increased red tape at EC borders.

"More than half of our output is exported and companies were already having difficulty before the EEA vote. Now they have to worry about discrimination as well," he says.

Yet another worry is the continuing political turmoil in Italy, which is the canton's second-most-important exports customer after Germany. As a result of the scandals, investment in the huge Italian public industrial sector has ground to a halt, resulting in declining orders for many Ticino machinery and chemical companies.

There is not a lot that Ticino authorities themselves can do to promote industrial development. They have managed over the past decade to improve public finances so that tax rates are more competitive, and they have increased the amount of investment tax credits available for industry.

Apart from that, the government is hoping that the project to build a new high-speed rail tunnel through the Gotthard pass will prove as beneficial as the original rail line a century ago.

Ian Rodger

SURVEYS INFORMATION

1993 FORTHCOMING SURVEYS LIST	Tel 071 873 3763 Fax 071 873 3062
SURVEY SYNOPSES	Tel 071 873 3763 Fax 071 873 3062
BACK NUMBERS £1.20 up to one month previous. Personal callers £1 £1.60 one month to one year previous	Tel 071 873 3324
SURVEYS INDEX (past two years) £2	Tel 071 873 3213
REPRINTS Quotes available for minimum 100 order	Tel 071 873 3213
ADVERTISING	Tel 071 873 3763

EDITORIAL Information should be sent in writing to the Commissioning Editor for the survey concerned, Number One Southwark Bridge, London SE1 9HL, or fax 071 873 3076 or 071 407 5700

Cheques and postal orders for the FT Surveys Index and Back Numbers should be made payable to Financial Times Ltd.

■ COMMUNICATIONS

Critical Alpine passes

TICINO, as every Ticinese will tell you, is first and foremost a transit canton.

From the 13th century when the Gotthard pass was opened, the triangular territory descending from the Nufenen, Gotthard, Lukmanier and San Bernardino passes has been of crucial strategic importance in traffic between northern and southern Europe.

The early Swiss confederates fought often and fiercely to gain control of the territory, initially winning Bellinzona and later all the territory to Lugano and Locarno.

By the early 16th century, all of Ticino was controlled by the confederation, and the territory remained a sort of colony until 1803 when, thanks to a Napoleonic Act of Mediation, it was transformed into a canton in its own right.

Today, the Swiss are equally determined to control the critical north-south Alpine passes in their territory. Last year, a majority of the people endorsed in a national referendum the principle of building two new high-speed rail tunnels through the Alps – one of them through the Gotthard, the other through the Lötchberg – to improve the Simplon line.

A century ago, when the first rail tunnel was drilled through the Gotthard, the then poor Swiss were content to lean on Italy and Germany for substantial financial support. Today, the more prosperous Swiss insist on paying for the tunnels themselves, even though the Italians and Germans will be the main beneficiaries.

It is debatable how much benefit these new tunnels – or indeed the existing ones – are to Ticino. The Ticinese themselves are inclined to be self-critical and say that they have not profited much from the passage of so much important business and so many important people through their territory over the years. But there is no doubt that the canton's fortunes were dramatically improved by the opening of the first Gotthard railway line in 1882.

It marked the beginning of the industrialisation of the canton and – even if that was achieved more by immigrating Swiss-Germans from the north than by local Ticinese – it was also the beginning of a period of growing prosperity that continues to our time.

The opening of the Gotthard road tunnel in 1980 has been a mixed blessing – certainly improving access to the canton for motor tourists from northern Europe, but also bringing appalling noise and emission pollution from giant lorries that thunder through.

So what is the balance sheet of the new rail tunnel likely to look like for Ticino? Mr Dick Marty, the canton's governor, is fairly sanguine. In the first place, he says, it should take a lot of lorries off the motorway, thus preventing a disaster. "If we do nothing, by 2010 the motorway will be unbearable," Mr Marty says.

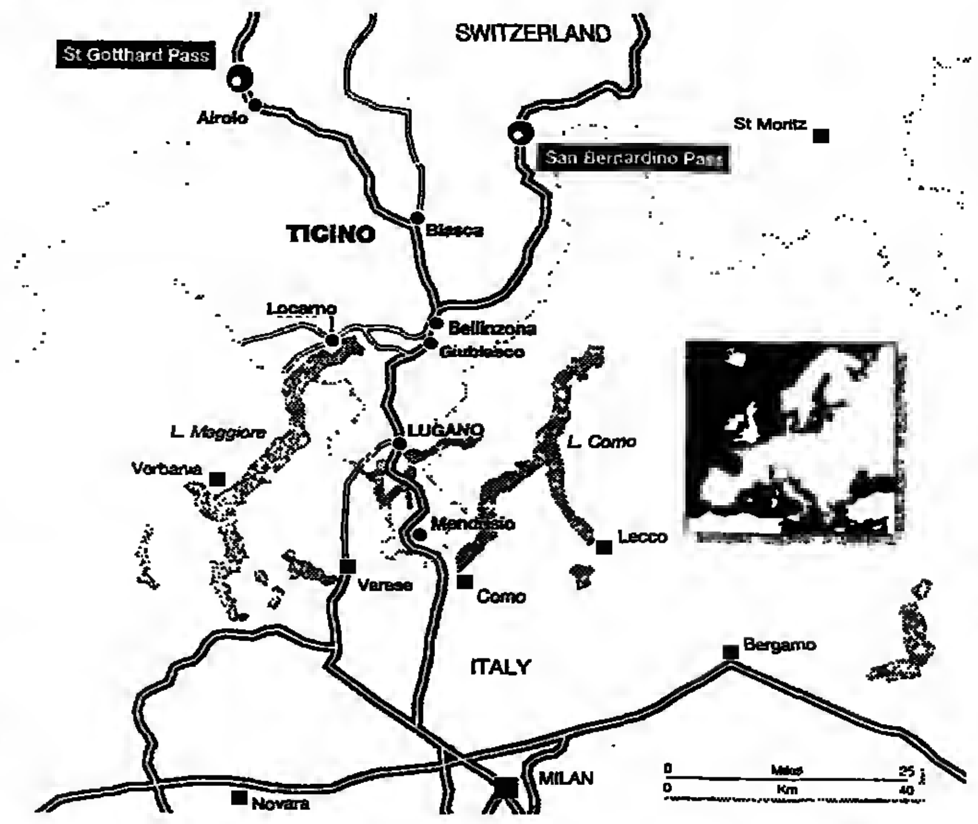
Why will freighters abandon the motorway? The idea is that the new tunnel, which is to run from Arth-Goldau in the canton of Schwyz south to Bodio in the Leventine valley, will have minimal grades and curves. That means that trains will be able to pass through at much higher speeds than can now be achieved either on the conventional railway, with its corkscrew and hairpin turns, or on the motorway.

The journey from Basle to Lugano, for example, should take 1½ hours compared with more than three hours oo existing infrastructure. Experts belisve that, provided the tariffs are right, that will be irresistible to truckers.

The other benefit Mr Marty cites is to tourism. According to a recent study, nearly two thirds of those who cross the Gotthard either originate or end their journeys in Ticino. With the new tunnel, people will be able to get to the canton much more quickly.

Mr Remigio Ratti, director of the canton's Istituto di ricerche Economiche and a transport economics specialist, is less optimistic. Indeed, he argues that if the project proceeds as planned, it will have a negative effect on Ticino.

"It will make Lugano into a suburb of Zurich," he claims.



The problem is that the Swiss, rather like the British with the channel tunnel, have not made any plans for what will happen to the new rail lines once they get to Lugano.

Mr Ratti says that unless provisions are made for efficient connections to other Ticino cities and, more importantly, to Milan, then the most significant effect of the project will be to facilitate passenger travel between Lugano and points north of the Alps.

Mr Ratti has joined with a number of local engineers led by Mr Aurelio Galfetti, the architect, in preparing a plan aimed at meeting these regional needs. The group presented it earlier this year to government and Swiss railway officials in Bern, but got a rather chilly response.

The government sold the whole project to the people last year with the promise that it would cost SFr14bn, already a numbing amount of money. But since then, the engineers have sharpened their pencils and the georal view is that the cost will be at least double the advertised sum.

A few weeks ago, the federal finance minister suggested that only one of the two proposed oew trans-Alpine lines be built, an idea that seot shudders through Ticino. They fear that if one is cancelled, it will be the Gotthard line because it is the more expensive ooe.

"We are a bit worried," Mr Marty admits. "We are the victims of our own Swiss perfectionism," he suggests. "We oeed more courage and fewer accountants. Yes, this project is expensive, but it will set the living conditions here for tha next 100 years, just like the last rail tunnel did."

Ian Rodger

■ Politics: La Lega dei Ticinesi

An impressive beginning

TICINO'S normally tranquil political life was rudely shaken up two years ago when a totally new party, La Lega dei Ticinesi, took 12 per cent of the vote in cantonal elections and claimed 12 of the 90 seats in the Bellinzona legislature.

A few months later, it took 25 per cent in the elections for the federal parliament, winning two of the canton's eight seats in the lower house of parliament and one of its two seats in the upper house.

Last year, in communal elections, the Lega's average vote slid back to 18 per cent, but it did very well in the cities, winning enough in Lugano to place two members on the city's five-man governing council.

It is all rather impressive for a party that did not exist three years ago and which has no clear philosophical base.

"We are not a party of the left or the right," says Mr Flavio Maspoli, one of its federal parliamentarians, cheerfully. "We are for people who have had enough and want a change."

It is difficult for the foreign visitor to see much need for change in this idyllic little corner of the world, but the Lega has found fertile soil in a number of causes.

It campaigned vigorously but in vain last year against the proposal to build a new high-speed rail tunnel through the Gotthard pass. But it was successful in opposing the plan for Switzerland to join the European Economic Area (EEA).

This year, it has led the fight in Ticino against the government's plan to buy FA-18 fighter aircraft.

The party's roots lie firmly in protest. Mr Maspoli and another party leader, Mr Giuliano Bignasca, set up Ticino's first Sunday newspaper, Mattino della Domenica, in 1990, with a view to making it a muckraking paper.

Critics say that Mr Bignasca, a controversial local property tycoon, started it because he was angry that he lost a bid for a large federal government building contract. In any event, the paper got off to a flying start with a campaign against irregularities in government subsidies for poor people's health insurance premiums and quickly acquired a large following.

Critics say that the paper is popular because it is free. *Lega* leaders reply that people queue up at 7am on Sunday at the distribution boxes to get one. There is no home delivery. As Mr Maspoli, its editor, recalls, within months letters were pouring in suggesting that he and Mr Bignasca set up a political party.

Mr Maspoli believes that the main reason for the party's success was that many people were fed up with the long-entrenched patronage system that permeates

It is a moot point whether Mr Bignasca is more of an asset or a liability to the party

Ticino politics. Until the Lega came along, the liberal Radical and Christian Democratic parties operated a cosy system of parcelling out jobs pro rata to their supporters at all levels.

Because of the party's name, it is a fair assumption that local nationalism also has something to do with its appeal, but party leaders play it down.

Mr Maspoli fumes about the fact that companies based elsewhere in Switzerland pay no taxes in Ticino on their activities in the canton. Similarly, he complains that the canton gets virtually no benefit from the vast amounts of electric power from Ticino power stations transmitted to consumers north of the Alps.

Last month, its members in the cantonal legislature protested when the governor proposed importing milk from Italy during tha summer to fill a seasonal shortfall.

Even within the canton, the Lega plays regional politics. Its strongest base is in Lugano, where members have been able to argue that the Ticino's largest city provides more resources to the canton than it receives. But opponents claim that the Lega is merely an opportunistic protest movement. "It plays on people's lowest sentiments. It is very populist, and even xenophobic," says Mr Dick Marty, the governor.

Mr Claudio Generali, chairman of Banca del Gottardo and a former governor, concedes that the Lega has been clever so far, maintaining voter interest by launching a string of petition campaigns for referendums on touchy local issues.

The latest one was over the selection of incinerators. The party claimed that the government's plan to build two was a typical compromise aimed at keeping supporters of both traditional political parties happy whereas one high technology plant would be adequate and would save money.

Sometimes, however, its campaigns backfire. Last summer, Mr Bignasca buffed and puffed his opposition to new highway speed limits and threatened to hold a demonstration on the main north-south motorway. In the end, in the face of heavy threats from the police, he contented himself with a symbolic demonstration on the motorway at a Lugano theme park featuring a scale model of Switzerland.

It is a moot point whether Mr Bignasca is more an asset or a liability to the party. He has been investigated for drug possession and is now serving a suspended seven months sentence for failing to pay welfare contributions for his employees.

What are the party's prospects in the future? The next indication does not come until 1995 when new cantonal elections will be held. Mr Maspoli is full of confidence, anticipating that one day the Lega will control the cantonal government.

Mr Raffaelo Ceschi, an historian, is more sceptical. "It could disappear very quickly," he says. "It could be absorbed by ooe of the traditional parties if they straightened themselves out."

Ian Rodger

■ PROFILE: SMB

Aiming at worldwide markets

FEW Ticino companies are known beyond the borders of the canton, let alone the borders of Switzerland.

But mention the name Schmiedemeccanica and suddenly the lights go on in chancelleries throughout the world.

Schmiedemeccanica, s small, high-precision forging shop tucked away in Biasca where Val Blenio joins the Leventine valley, achieved wide notoriety in August 1990 when it was one of the first companies accused of supplying goods for Iraq's nuclear programme.

The family-controlled company, which has since changed its name to SMB, is still trying to recover from the catastrophe.

As Mr Gianni Martinelli, president, explains, the company received an order in early 1990 from a Middle East trading company with which it had done business before for four batches of 250 rough gear forgings worth some SFr42,000.

Mr Martinelli says that the company had always been very careful about orders for sensitive components and sought guidance from the Swiss government if it was in doubt about a foreign purchaser.

"But this was just a rough stamping. Any shop in the world could do it," he says. "You would never have thought they were for a uranium enrichment plant, especially in that volume."

However, the parts were intercepted st Frankfurt airport and the company was charged, along with others, with illegal exports to Iraq.

Swiss investigators descended on Biasca the next day, but within minutes they realised there was no case. "They saw immediately that we were innocent, but we had to wait 11 mooths for every other case to be investigated before they officially announced the results," Mr Martinelli recalls.

The publicity surrounding the case caused SMB considerable damage. Since peaking in 1989 at roughly SFr30m, the company's turnover has halved and he attributes more of the fall to the bad publicity surrounding the Iraq sale than to the recession in manufacturing industry.

SMB – the name change was in the works before the Iraq incident, Mr Martinelli says, in an attempt to distance the company from its rough forging image – is one of the few outstanding exceptions to the general truth that Ticino has no industrial history.

The company was formed more than 100 years ago at Faido in the upper Leventine valley to provide metal parts and tools for the great Gotthard railway tunnel project. For a long time, its main business was railway-related, and it still makes components for Swiss locomotives. But Mr Martinelli doubts that it will be competitive for supplying items for the new rail tunnels that are to be drilled through the Gotthard in the next few years.

Low-cost suppliers from eastern Europe are making inroads in all European markets

Because of high Swiss labour costs and the strong Swiss franc, the company has had to move into ever-higher precision and higher-value products to survive.

Mr Martinelli, who holds a PhD in engineering from the UK's Aston University, observed at close hand the shake-out in the UK forgings sector in the late 1970s. He then went to the US to do metallurgical research, but before long he could see the shake-out also hitting the family company. He returned reluctantly from the US in 1980 and rescued the company with a combination of hetter managemeot, new investment and a search for new markets.

SMB's main products today are artificial human joints, precisioo-forged from titanium-based super-alloys. The company only got into this business five years ago, and sales of joints now account for about ooe third of the total. The rest comes from highly-stressed steel forgings for textile machines, trucks, aircraft and oil rigs.

Mr Martinelli, who was named Switzerland's entrepreneur of the year in 1985, suspects he must now engineer another revolution to preserve the company.

Recent currency devaluations have hurt SMB's competitiveness in Italy, the UK, Sweden and Norway. Low-cost suppliers from eastern Europe are making significant inroads in all European markets, especially in Germany, and Mr Martinelli makes clear that there is no quality gap; many east-European forging shops were formerly suppliers to the Soviet military and space programmes, he points out.

He is confident that the medical prosthesis business will continue to prosper. Precision forgings have proven superior to machined castings in avoiding stimulating the body's rejection processes, and SMB is one of only a very few companies in the world capable of making these forgings.

He also believes the company should take on more development projects, that is, working with a manufacturer to develop a sophisticated component, then passing the production technology on to another company to make it in volume.

He has thought of shifting the company elsewhere, but dismissed it. "There is no point, there is overcapacity all over the world," he says. SMB, with it 100-strong workforce, is also the biggest employer in Biasca, which imposes a responsibility.

SMB is the kind of manufacturing company that Ticino authorities want to see develop in the canton. They share Mr Martinelli's unease that the cantonal economy moved from its rural base to sophisticated services – banking and tourism – without establishing s large manufacturing base.

SMB, and other companies like it, even though small, are building businesses from a higher technology base and aiming at markets all over the world. Their success is vital if the canton is to maintain any industrial base.

Ian Rodger

■ THE TOURIST INDUSTRY

Campaigning for culture vultures

WHEN Easter rolls around each year and the holiday rush to the south begins, Ticino is one of the first stops on Northern Europeans' itineraries. Visitors bring out their linen suits, sit at outdoor cafés and immediately feel Latin. Because it is blessed with a Mediterranean micro-climate, and its culture is firmly rooted in Lombardy, the Canton has been able to market its decidedly non-Swiss features with success.

Today, tourism makes up 25 per cent of the gross cantonal product, bringing in about SFr1.5bn a year and employing 15,000 people or 4 per cent of Ticino's population.

Ticino became a tourist destination in the late 19th century when the Gotthard Pass railway was opened. Prior to that, the area was frequented for the most part by Italians who spent a few weeks in Ticino during the summer and again in the winter to get away from the Milanese fog. In the 1930s, the Swiss travel agency Hotelplan organised tours to Ticino and then, after the Second World War, British and Americans became acquainted with the canton through their soldiers who were sent on holiday to various regions of Switzerland.

Lugano is the site of many of Ticino's museums, including Baron Heinrich Thyssen-Bornemisza's Villa Favorita

Whereas the international jet set flocked to the Ticino lakes in the sixties, the seventies saw the advent of mass tourism and the small Canton found itself unprepared to deal with the influx. It is still battling with the results of the tourist boom which lasted well into the eighties: traffic jams, lack of parking space and a certain loss of identity. The local population, eager to take part in the flourishing industry, quickly sold off large tracts of land at low prices, and readily spoke German to visitors.

The regional tourist offices decided to change their strategy in the early eighties when they felt that not only had the area reached saturation point but also that German was rapidly becoming a second language. According to Mr Eugenio Foglia, the Ticino tourist board's director, a campaign to promote "intelligent tourism" was launched, encouraging travellers to become more sensitive to the identity of the area by visiting local museums and participating in cultural events.

The tourist board, seeking to distance itself from mass tourism and to attract a more culturally and ecologically-minded visitor, has made concerted efforts to increase cultural events which incorporate the area's Italian identity, evident in its architecture, music, gastronomy and art. The canton's calendar of events has been flooded with music festivals and art exhibitions. Also new to the programme are special interest excursions such as a tour of modern architecture in the region (the star of Ticino's contemporary architecture movement is Mario Botta), and other tours which target nature lovers and include cycling and hiking trails.

While early figures for the cultural campaign indicate positive results, Ticino is battling the recession. Last year the canton had a difficult time filling its 20,000 beds – overnight stays had dropped more than 8 per cent, with medium and modest category hotels suffering most. In fact, results for the 1992 season in Ticino were worse than for the rest of Switzerland.

This, says Mr Foglia, can be explained by Ticino's dependence on Swiss-German and German clientele – more than half of its tourists are Swiss-German and Germans make up more than 50 per cent of the total numbar of foreign visitors.

Both groups reacted to the economic downturn by cutting back drastically on holidays, resulting in a 13.7 per cent drop in the number of Swiss visitors to Ticino compared to a 6 per cent fall for the rest of Switzerland and a drop of 4.6 per cent in foreign tourists compared to a slight increase in travellers from abroad to other Swiss Cantons.

British and Americans were primarily responsible for this rise in other parts of Switzerland and it is precisely this clientele thet Mr Foglia and his office hope to attract. Although Ticino did see a return of British and Americans last year following their absence during the Gulf War period, according to Mr Foglia the numbers are insufficient to compensate for the loss of the Germans and Swiss-Germans.

Mr Foglia, whose tenure as head of the world tourist board began just when the recession hit Switzerland, has heen relentlessly promoting Ticino at travel industry gatherings, hosting journalists and travel agents and orchestrating mass mailings of brochures which, while extolling the area's mild climate and lush vegetation, focus on Ticino as a cultural centre as well as a resort.

Retaining as clients the long-faithful sun-worshippers while attracting a new crowd of museum-goers will entail a delicate balancing act hut Ticino has the advantage of already being divided into two distinct regions which can handle the different exigencies of travellers.

Ascona: Ticino is blessed with a Mediterranean micro-climate while its culture is firmly rooted in Lombardy

The Sottoceneri is the southernmost tip of the Canton, situated around Lake Lugano. Over the years, Lugano has developed into an urban centre and now attracts more of a business crowd with weekend visitors and day trippers from Italy.

Lugano is the site of many of Ticino's museums, inclnding Baron Heinrich Thyssen-Bornemisza's Villa Favorita. Classical music, jazz and world music festivals also take place in the town.

Some 67 per cent of overnight stays are hy foreign visitors whereas in the Sopraceneri region, which encompasses Locarno and the villages around Lake Maggiore, Swiss tourists constitute 65 per cent of overnight stays and the average length of time spent there is longer than around Lugano. Mainly a resort area, Sopraceneri's attraction is the vast Lake Maggiore and its beaches and surrounding valleys, rivers and streams.

Because the tourist industry is an essential contribntor to Ticino's revenue, the board receives a great deal of support from the canton government to upgrade the quality of tourism. Enormous sums have been invested in projects for new roads, tunnels and pedestrian zones to mitigate heavy traffic during the tourist season, while much effort has gone into encouraging visitors to use public transport by offering special regional passes.

Ticino, still reeling from the effects of the recession on the 1992 season, is banking on diversifying the nationalities of its clientele and targeting a higher income group, thus extending overnight stays. And Mr Foglia believes a cardinal lesson was learned from the tourist boom of the seventies and eighties: so as to maintain a harmonious balance between guests and hosts the tourists should not outnumber the local population.

Olivia Snaije

Take a boat ride round the lake. There are stops in Paradiso and in the centre of Lugano. Boats leave frequently

■ A VISITOR'S GUIDE TO LUGANO

Business-oriented

LUGANO, like all Swiss cities, exudes a feeling of wealth and luxury and is clearly a business-oriented town: lively during the day and quiet at night.

It is built around an alluring lakeside with a long, palm-shaded promenade. The old town centre features a large pedestrian precinct with shops galore and a visual feast of Italianate arcaded buildings.

Getting there

Agno airport is typically efficient and only 10km from the centre of Lugano. But there is no rail connection and taxis cost abont SFr60. For those coming from the north, the rail journey from Zurich, winding through the Alps, is well worth the three hours it takes.

For departures from Agno, look carefully at your booking. Lugano is one of the places from which a "direct" flight is seldom a non-stop one. Most northward flights make a stop in Zurich or Geneva.

Getting around

Lugano makes life difficult for the motorist. Unless a car is absolutely essential, it is always better to get around in taxis, buses and on foot. On the other hand, if you have to travel outside of Lugano, a car is essential.

Roads are excellent and directions clearly signposted. Rush hours are between 7:30 and 8:30 in the morning and between 5:00 and 6:30 in the afternoon and are particularly fierce near borders because of the heavy traffic of day workers from Italy.

Hotels

The Grand Hotel Eden in Lugano's Paradiso section is popular with businessmen. It is divided into two sections and the one on the lakefront is quieter and offers a better view. The hotel is modern, with all facilities, but has no memorable personality. (Tel 091-55-01-21)

The Splendide Royal sits splendidly above the lakeside road looking over the lake and is a little closer to the centre of town than the Eden. An aristocratic villa transformed into a hotel in 1888, its salons are furnished with antiques and 19th century paintings. Lake view rooms are a bit noisy during the summer. Otherwise, this is a fine hotel that has had the aame manager for 15 years. (Tel 091-54-20-01)

The Principe Leopoldo is a beautifully-restored neo-classical villa with 24 suites, a garden around the pool, a winter garden and conference space. Its disadvantage is that it is somewhat inconveniently located on the outskirts of the city, making it necessary to drive or take a taxi. It is part of the Relais & Châteaux chain. (Tel 091-55-88-55)

The Villa Castagnola au Lac is in a restored 19th century villa slightly outside the centre of town and has a beautiful park, swimming pool and tennis courts. It is set well set back from the busy main road and is on a well-served bus route to the centre. (Tel 091-51-22-13)

Among four-star hotels, the Lugano Dante (Tel 091-22-95-61) and the Admiral (Tel 091-54-23-24) appeal to a business clientele and are conveniently located.

Restaurants

Most of the better restaurants are a little bit outside of Lugano.

Ristorante Bianchi, founded in 1803 and newly restored is close to the Lugano Dante Hotel. International-nouvelle cuisine. Good wine list.

Al Portone is a refined, city-style restaurant with international cuisine, large choice of cheeses and desserts.

Parco Saroli is in the Banc del Gottardo building created by architect Mario Botta. At noon, it is very crowded but is a pleasant place to meet for business lunches. The cuisine is local northern Italian-international.

Motto del Gallo is in the Taverne-Toricella. You need a car or must take a taxi to get there but it is well worth it. High class restaurant in a rustic setting. Local and northern Italian cuisine. Garden seating in the summer.

The restaurant in the Principe Leopoldo hotel is very chic for the occasion when someone has to be impressed. Lovely setting and international cuisine.

Tips for time off

- Take a boat ride round the lake. There are stops in Paradiso and in the centre of Lugano, and boats leave frequently for Ponte Tresa (about 1½ hours), Campione (20 minutes) and Gandria (half an bour) on the Italian border.
- Play the tables at Campione, an exclave of Italy on the east side of the Lake of Lugano, or just soak up the real Italian night life atmosphere there after Lugano goes to sleep.
- Visit various museums, among which the Museo Cantonale in central Lugano, the Villa Malpensata on the way to Paradiso and the Villa Favorita (whicb now houses Baron Thyssen Bornemisza's 19th and 20th century collection of European and American art) in Castagnola, are the most notable. The Villa Favorita has just been reopened after extensive renovation. It is open from 10am to 5pm, Tuesdays to Sundays.
- Rent a car and take a modern architecture tour of the region. The Ticino Tourist office publishes a brochure outlining such tours. Local architects Mario Botta, Aurelio Galfetti, Luigi Snozzi and others have made big contributions to modern architecture.
- Visit the medieval castles in Bellinzona where members of the Sforza and Visconti families once ruled. Castelgrande, the largest of the three, was recently restored hy Aurelio Galfetti. The restaurant Castelgrande within the castle is worth a visit too.
- Visitors in August can take in the Locarno Film Festival. Its emphasis is on films from the Third World and by new directors. Outdoor screenings are held in Locarno's main square. Go hy train. Traffic jams on the main road to the city, bad at the best of times, become monumental during the festival.
- Go hiking. There are dozens of hilly trails within easy reach of the city, and the Lugano tourist office publishes an excellent 1:50,000 map illustrating them. For more leisurely walks and spectacular views over southern Ticino, take a funicular from Paradiso to the top of San Salvatore (900 metres) or another one from Cassarate to Monte Brè.
- For music lovers, the highlight is the spring concert season, with orchestral concerts in the Palazzo dei Congressi conference centre from late March until early June. In July and August, the city offers frequent baroque concerts in parks, churches and historical buildings. There is a hrief opera season from July 6-10 and an international festival of organ music in Magadino throughout July.

The New Orleans Music Festival runs from June 25 to July 4 in Ascona and modern jazz is highlighted in Lugano's Estival Jazz 1993 from July 1-3.

How to spend it

Luxury goods are available in profusion in Lugano. A more original purchase would be a local Merlot wine at the Bottega del Vino Gabbani in Via Pessina. Among the best labels are Tenuta Montalbano, Merlot Tre Terre, La Brenta Riserva Speciale and Merlot dei Castelli di Bellinzona.

Olivia Snaije